

# Public Utilities

Volume 61 No. 1



January 2, 1958

## THE OUTLOOK FOR PUBLIC UTILITIES—1958

*By Francis X. Welch*

« »

## Tax Reform and a Balanced Budget

*By the Honorable Antoni N. Sadlak*

« »

## A Pioneering Electric Utility

*By Thomas E. J. Keena*

« »

## A New Look at Utility Regulation

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**REPORT**



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# Public Utilities

**FORTNIGHTLY**

VOLUME 61

JANUARY 2, 1958

NUMBER 1



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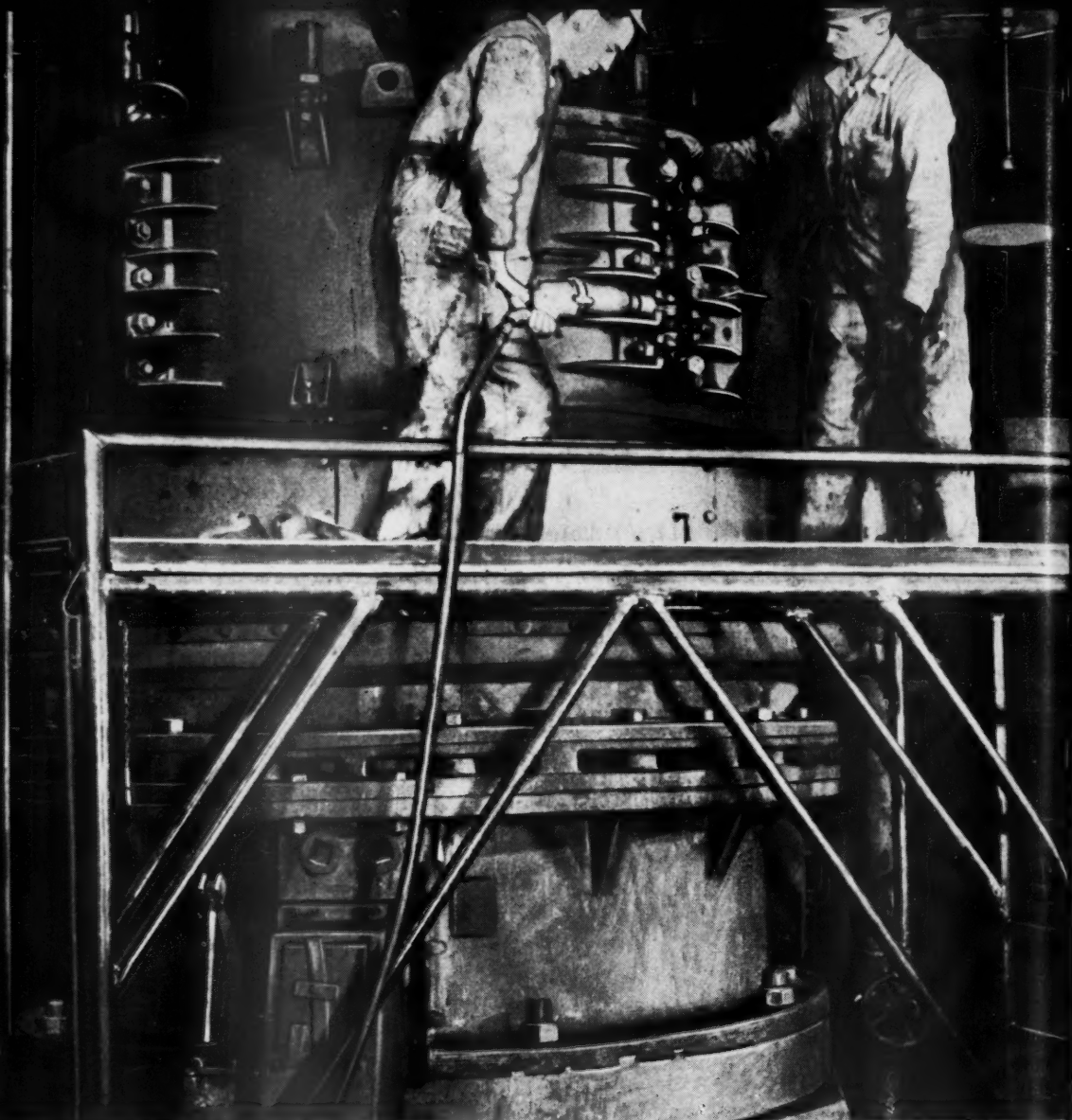
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Representative steps in pulverizer disassembly shown here demonstrate ease and safety of maintenance. Access doors are opened by impact wrenches. Doors swing back, not removed.

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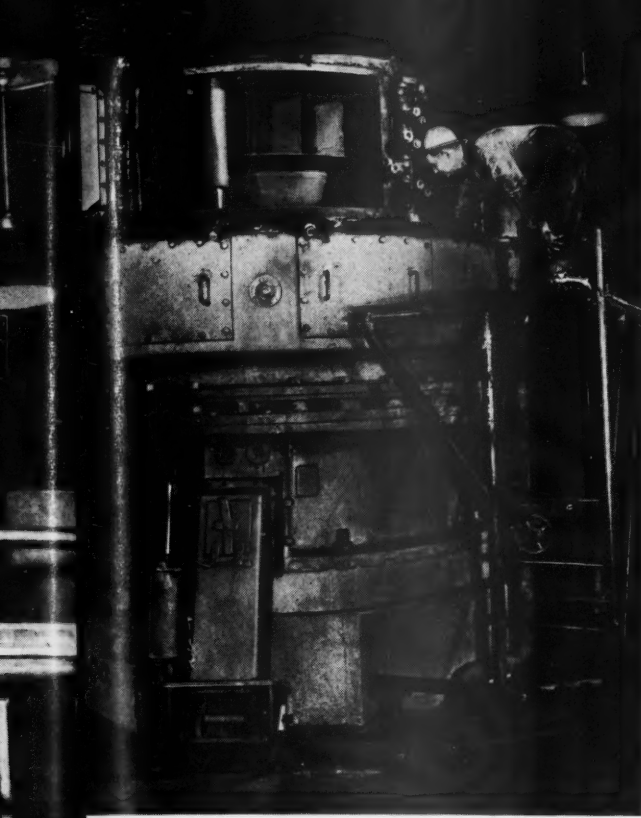
**Fan Maintenance Minimized**, shutdowns and maintenance costs reduced because the B&W Pulverizer's primary air fan operates with only clean air. As primary air is supplied to the pulverizers under pressure, fuel piping from pulverizer to burners is greatly simplified.

**Continuous High Fineness**, without reduction in capacity, is assured as grinding surface is maintained with wear. Slow-speed, spring loaded, ball bearings

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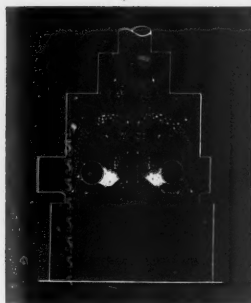
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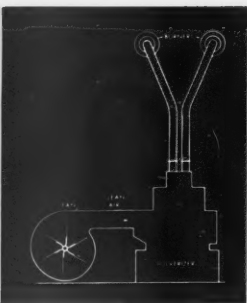
With doors swung open, classifier and spring assemblies are easily accessible for removal. Grinding components are removed without special rigging.



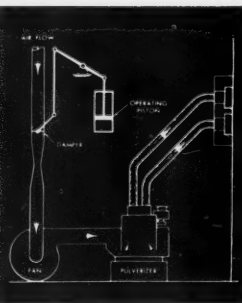
Top grinding ring is lifted by chain falls and, following removal of scaffolding, lifted and transferred by fork lift truck. Lower grinding ring is removed in same simple manner.



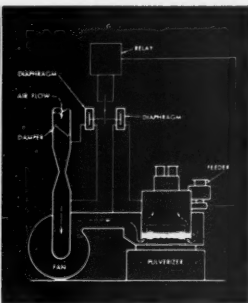
**Coal Recirculation** assures high fineness, aids drying.



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city grinding elements of long-wearing, special alloy material maintain this proper grinding contact throughout their service life. Dependable classification permits material of proper fineness to leave the unit.

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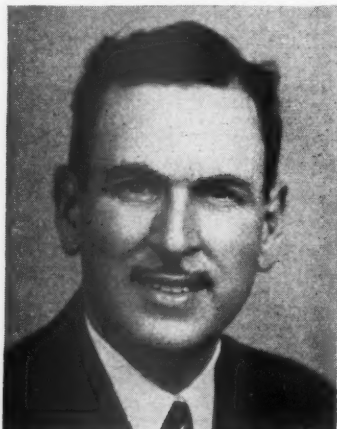
BOILER  
DIVISION

# Pages with the Editors

It is always a pleasure to wish everyone a happy New Year during this cordial holiday season. And the editors of PUBLIC UTILITIES FORTNIGHTLY are only too glad to follow the congenial tradition and take this occasion of expressing the hope that the year 1958 will bring the best to all our readers and friends, in and out of the public utility business, and the regulatory business.

SOME of the signs we see on both the domestic and international horizon are not very conducive to positive expectation of any favorable developments. The twin bugaboos of taxes and inflation are still with us, complicated by tight, high-cost money for necessary financing, and the emphasis on defense spending, underscored by the recent summit conference of NATO in Paris, augurs ill for those who had hoped for tax relief. Indeed, the prospect of a balanced budget is none too bright as we cross over into the New Year, which promises us an even heavier dose of worries about missiles and satellites which so bedeviled the tail end of the old year.

FOLLOWING his custom of more than a decade, the editor of this publication, FRANCIS X. WELCH, has again given us an "outlook" article in which he en-



FRANCIS X. WELCH



ANTONI N. SADLAK

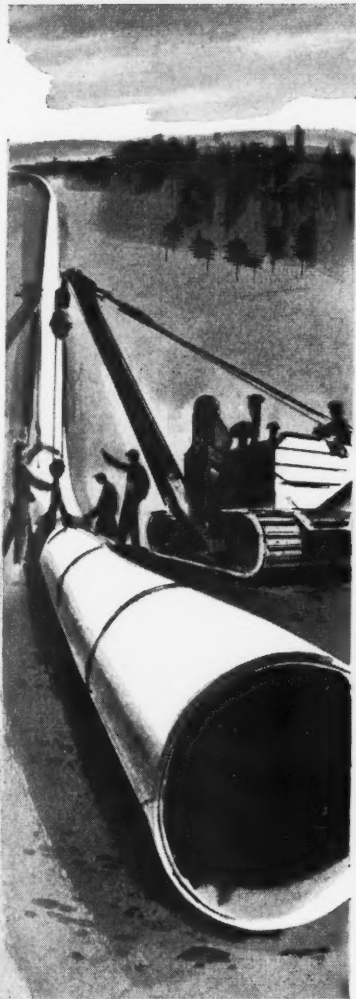
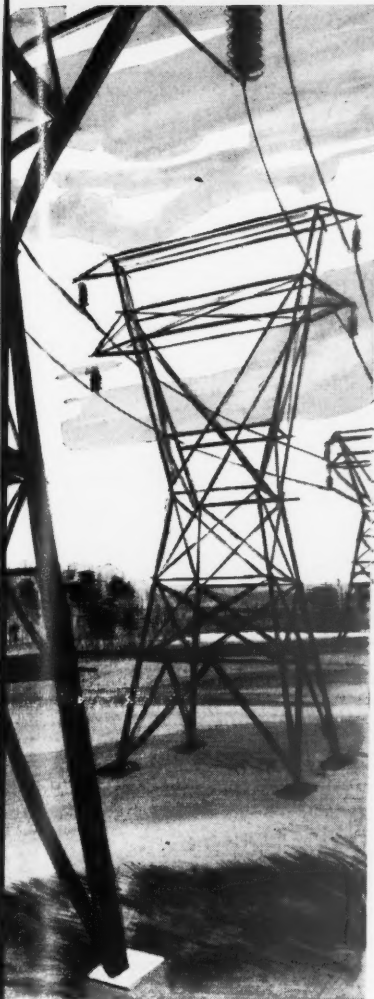
deavors to predict some major things which are in store for public utilities in the coming year. From the vantage point of his Washington, D. C., headquarters, Mr. WELCH sees some positive as well as negative signs and even a few silver linings. Apparently he expects more sound than action in the forthcoming second session of the 85th Congress on measures of concern to public utility industries.

As in former years, Mr. WELCH makes no claim, of course, to occult powers. His estimates are based entirely on established or discernible trends already in existence. He has merely used the experience of a Washington observer in projecting these trends across the 1958 calendar.

\* \* \* \*

LAST month the Federal Power Commission approved the proposed merger of the Hartford Electric Light Company of Hartford, Connecticut, and the Connecticut Power Company of Wethersfield, Connecticut. This was one of the last steps in combining these two well-known electric utility companies. We note that after the merger Hartford Electric will be the surviving corporation and the separate existence of Connecticut Power will cease and all assets and liabilities of the latter will be assumed by Hartford Electric.





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WHILE we always regret to see any familiar landmark on the utility landscape—certainly one as well established as Connecticut Power—pass away, it is reassuring that Hartford Electric, one of the real pioneers in its utility field, emerges larger and stronger and in a better position to remain on the scene for a long time. Thus the proud tradition of a veteran in the electric utility business becomes reinforced.

It is appropriate, therefore, that we give some special recognition to this hardy organization which celebrated its seventy-fifth birthday only two years ago. Beginning on page 17 of this issue, an experienced Hartford newspaperman, still young in years, THOMAS E. J. KEENA of *The Hartford Courant*, tells the story of his hometown electric utility company—Hartford Electric.

MR. KEENA is a native of Hartford and a graduate of Yale (BA, '41) who began reportorial work on the staff of *The Hartford Courant* even while still in school. After World War II service with anti-aircraft troops in Sicily and other European countries, he returned to *The Courant* on general assignment in 1945. He took time out in 1949 for special studies at the Sorbonne and Oxford.

\* \* \* \* \*

ADMINISTRATION budget cutters have been very busy trying to find ways and means for saving on less essential government expenditures ever since the step-up of the missile program became a firm policy. President Eisenhower, in his speech at Oklahoma City on November 1st, reached the clear conclusion that "entire categories of activities" should be cut or deferred. What can be done about this without running into the agonizing alternative of increasing taxes during the year of a congressional election?

BEGINNING on page 12, REPRESENTATIVE ANTONI N. SADLAK (Republican, Connecticut), a member of the House Ways and Means Committee, tells why he thinks that such economies can be found. REPRESENTATIVE SADLAK thinks we can



THOMAS E. J. KEENA

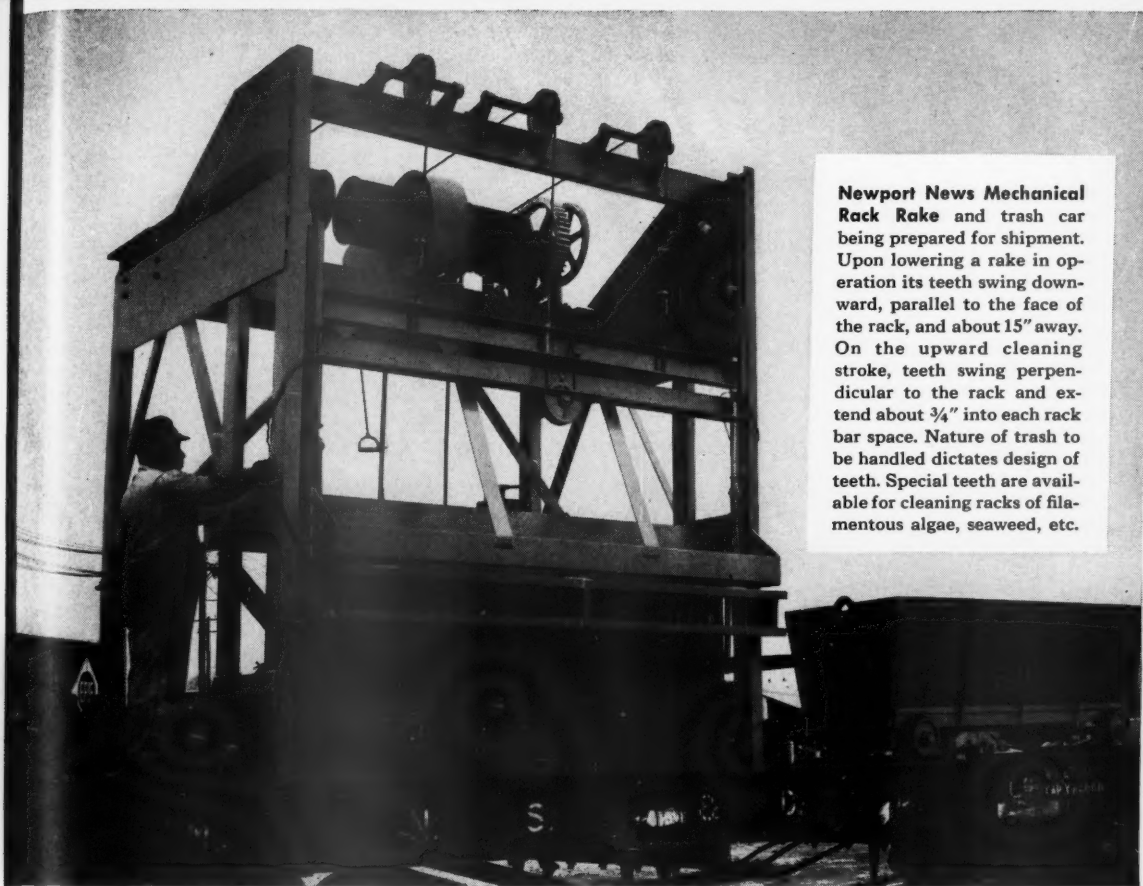
have tax moderation without surrendering the balanced budget. In this article he explains a bill which he has introduced with bipartisan support from a colleague on the House Ways and Means Committee, Representative Herlong (Democrat, Florida). This bill is for tax reform and would moderate taxes in all brackets. In other words, REPRESENTATIVE SADLAK thinks that even a tax cut is still a possibility if other reforms and government economies are effective.

REPRESENTATIVE SADLAK is another native of Connecticut, born in Rockville in 1908 and educated in the local parochial and training schools. He was graduated from Georgetown University (LLB) and shortly thereafter joined the U. S. Department of Justice as an inspector. During World War II he was commissioned in the U. S. Naval Reserve and served on the staff of Admiral Kinkaid, Commander of the Seventh Fleet, in the Pacific. He was first elected to the 80th Congress as a Republican Representative at large from Connecticut and has been continuously elected since that time. He is a member of the powerful House Ways and Means Committee, which has jurisdiction over all tax legislation.

THE next number of this magazine will be out January 16th.

*The Editors*





Newport News Mechanical Rack Rake and trash car being prepared for shipment. Upon lowering a rake in operation its teeth swing downward, parallel to the face of the rack, and about 15" away. On the upward cleaning stroke, teeth swing perpendicular to the rack and extend about  $\frac{3}{4}$ " into each rack bar space. Nature of trash to be handled dictates design of teeth. Special teeth are available for cleaning racks of filamentous algae, seaweed, etc.

## Positive cleaning action calls for guided rack rakes

Excessive loads of trash cannot push a Newport News rake away from the racks.

And there's no chance of the rake *riding over trash* on the upward cleaning stroke. Nor will its teeth drop the debris. Because Newport News builds the rake to operate in channel guides... for *positive cleaning action*.

That's why efficient rack cleaning assures the maximum head at intakes and is yours when you put a rugged and dependable Newport News Mechanical Rack Rake on the job.

Maximum width of a single rake is determined by design of the forebay. Where a single bay is extremely wide, intermediate guides are sometimes installed to reduce width of the rake. Such installation is relatively inexpensive.

A power-operated Newport News Mechanical Rack Rake, under ordinary conditions, enables

one man per shift to keep racks clean for a dozen bays, from 5'-6" to 28'-6" in width.

Trash is cleaned from the rake manually, or by a mechanical "sweep", into a flume, a car or onto a trash apron. Local conditions and nature of the trash dictate method of disposal. The many typical installation arrangements fit most needs, but each installation is a custom built job.

We invite inquiries from water users who are troubled with trash. Write for your copy of "RACK RAKE", an illustrated booklet describing the operation and advantages of the Newport News Mechanical Rack Rake.

**Newport News**  
Shipbuilding and Dry Dock Company  
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# Coming IN THE NEXT ISSUE

(January 16, 1958, issue)



## **COMMON STOCK EQUITY CAPITAL COSTS FOR GAS UTILITIES**

Although this article deals primarily with the cost of common stock capital for gas utilities, the discussion of the relationship between earnings and stock prices should be of interest to all utilities. It comes to us from Donald C. Neill, rate analyst of the Southern Counties Gas Company of California. The general conclusion of the author is that under prevailing conditions of rising capital costs public utilities in fair value states will find it relatively easier to obtain access to capital markets at a lower average cost than will those operating in states where original cost regulation is the required standard. The author proves this proposition by analysis and selected financial statistics for original cost and fair value gas distribution utilities in the year 1955.

## **ANSWERING AUTOMATION'S BIGGEST QUESTION**

The well-known author of business articles, James H. Collins, Washington, D. C., deals in this article with a subject widely considered and worthy of further discussion. The conclusion is not startling; namely, that the final result of automation is advantageous to all, but that there may be transitional dislocations burdensome to a few. The author in this article takes up the question of whether persons dislocated by mechanization are able to find new jobs comparative to the ones displaced by automation. So far not much following up has been done to see what happens with jobs and people under this condition. This would appear to be a fertile new field for public and employee relations development.

## **UTILITY INDUSTRIAL DEVELOPMENT PROGRAMS. PART I.**

C. E. Wright of Jacksonville, Florida, has undertaken a rather exhaustive survey of utility company practices in connection with attracting or improving industrial developments in their respective service areas. The returns from this survey were so varied and noteworthy that a three-part article was found necessary to avoid cutting short much of the interesting factual material. Mr. Wright's article shows that American industry is on the move and that among the factors which must be considered in locating or relocating an industry is the availability of services of all kinds: transportation, water supply, raw materials, capital and labor, prevailing wages, taxes, and local cultural opportunities.

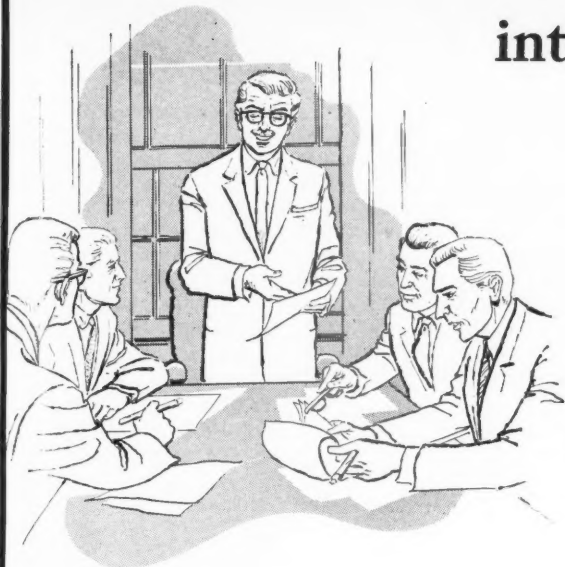


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**—CURZON**

***\*Rate Commissions will  
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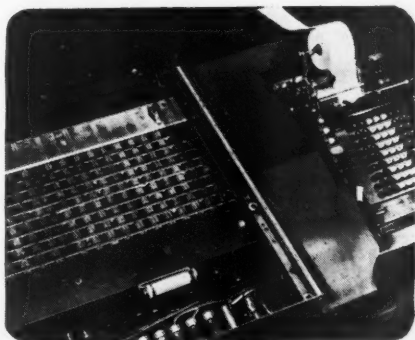


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The difference can be great in return on invested capital (which now should be  $6\frac{1}{2}$ –7%) and in more favorable terms when seeking *new* capital for expansion.

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# Remarkable Remarks

*"There never was in the world two opinions alike."*  
—MONTAIGNE

EDITORIAL STATEMENT  
*The Wall Street Journal.*

"The fact is that private enterprise is the secret of this country's economic success. The fact is that state control is the secret of the Soviet's relative failure so far. They are now going to try to modify that control, but still within the framework of Communist economics."

WILLIAM A. DAWSON  
*U. S. Representative from Utah.*

"I can see no reason why I should vote for a \$600 million Hell's Canyon project to take taxes from residents of the entire nation to build a tax-free dam to distribute tax-free power through tax-free agencies for the particular benefit of industries and residents of one area of the country."

HOMER J. LIVINGSTON  
*President, The First National Bank  
of Chicago.*

"A steady growth in savings must accompany sustained economic progress. If we are to maintain the value of the dollar and at the same time realize the great potentials of our economy, there must be a continuous flow of new investment funds from business and individual savings."

A. L. M. WIGGINS  
*Chairman of the board, Louisville &  
Nashville Railroad.*

"Railroads are owned and operated by governments in practically every country in the world except the United States. The history of the socialization of the railroads throughout the world should be a timely warning to the people of this country of what can happen to the railroads here as a result of financial malnutrition."

FRED G. GURLEY  
*President, Santa Fe Railway.*

"... the rôle of railroads in today's economy is no different from the rôle they played before the advent and development of the so-called 'newer' forms of transportation. For today, as always, railroads provide the bulk of the low-cost common carrier transportation which is the basis of all commerce and upon which all depends."

EDWARD MARTIN  
*U. S. Senator from  
Pennsylvania.*

"One of the most difficult functions of a free government is to maintain a stable currency... more great nations have been overthrown by inflation than by invading armies or destructive bombs. A nation destroyed by a military force can rebuild itself but a nation where incentive of the individual is destroyed has very little opportunity of recovery."

GEORGE E. SOKOLSKY  
*Columnist.*

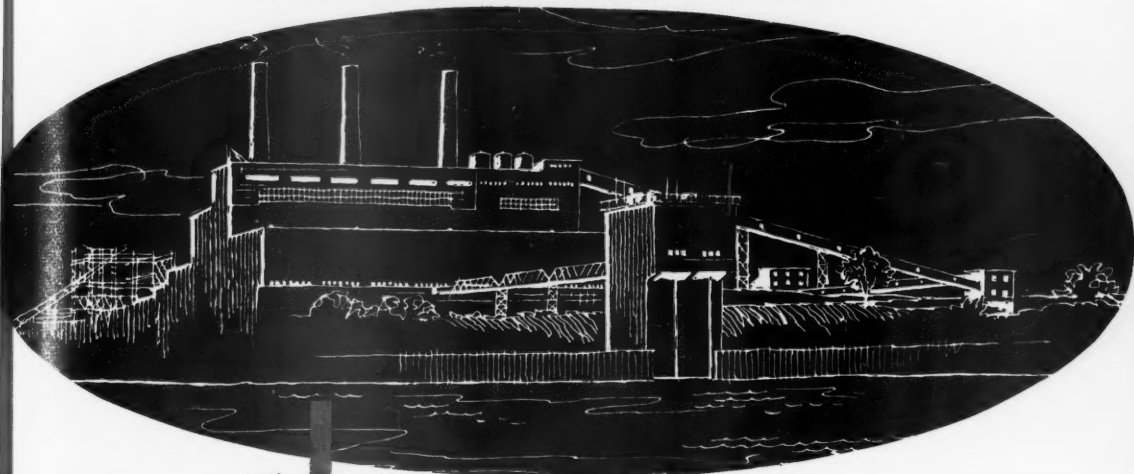
"... moral indignation is essential in a free society. To remain free, a people must often be angry and they must be angry against their own officials. In this United States, such indignation is usually impersonal because few of us know our politicians and many would not care to know some. But indignation is good for the soul and the ancient adage, 'throw the scoundrels out!' applies to even one's best friends in public office."



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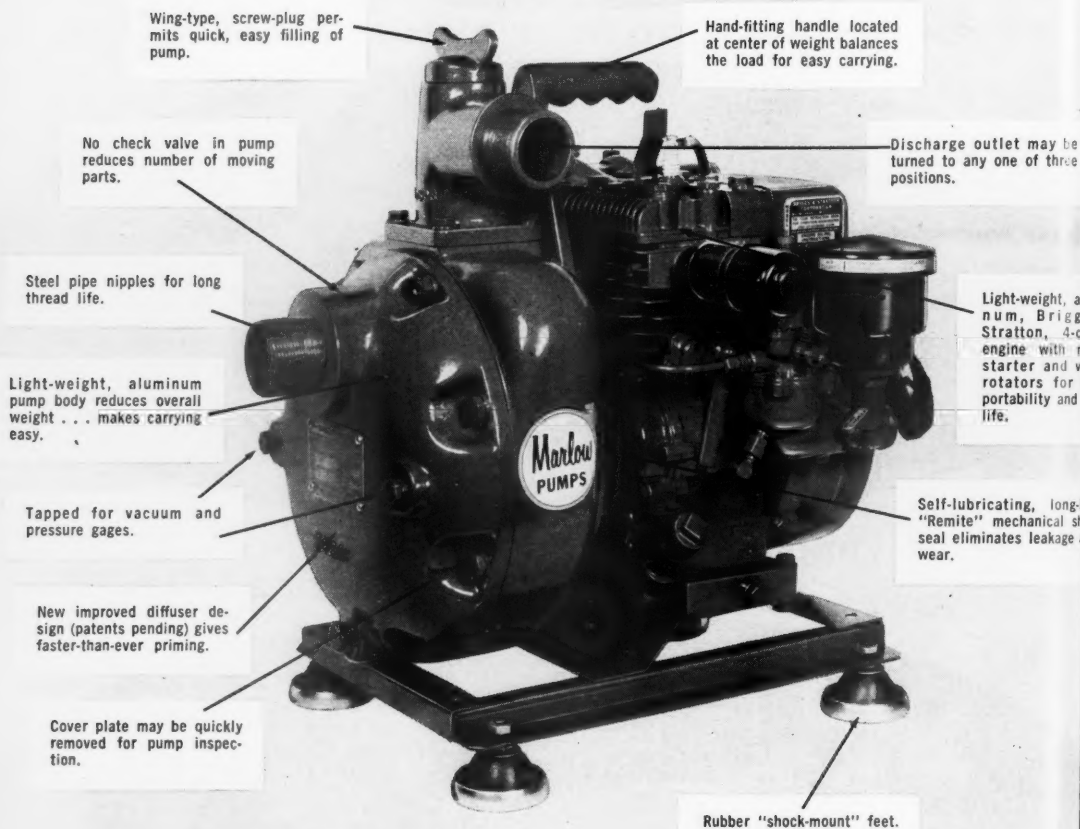
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These great, new, fast-priming Marlow Utility Pumps are available in 1½" and 2" sizes. These all-aluminum pumps are extremely light in weight and easy to carry. The 1½AA1 Model weighs only 49¾ pounds, while the large 2AA1 weighs 52½ lbs. Compact in size, the 1½ unit is only 16¾" high by 18" long by 14¾" wide, the units can be stowed easily in existing truck compartments. Write today for complete information and the name of your nearest Marlow dealer.



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## LIGHT-WEIGHT "MUD-HOG" DIAPHRAGM PUMPS

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Heavy-duty, heat-treated gears, running in a bath of oil, operate diaphragm through a crank-type drive.

Anti-friction bearings throughout.

Light-weight, aluminum, Briggs & Stratton, 4-cycle engine with recoil starter and valve rotators for true portability and long life.

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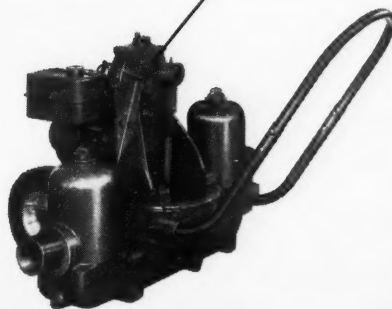
New, all-aluminum construction makes units readily portable.

Steel pipe nipples for long thread life.

Heavy-duty, pump valves on both suction and discharge for long service life.

Wheel-mounted units can be easily handled by one man.

The new Model 302B light-weight "Mud-Hog" can be arranged either with or without wheels. The wheel-mounted model weighs 137 pounds while the base-mounted unit weighs only 126 pounds. Both units are compact in size. These fast-priming pumps have 3" suction and discharge ports. They can handle trash-laden and muddy water with ease. For complete details, write today for brochure and the name of your Marlow Dealer.





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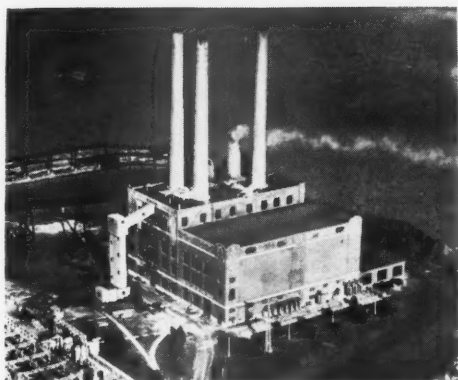
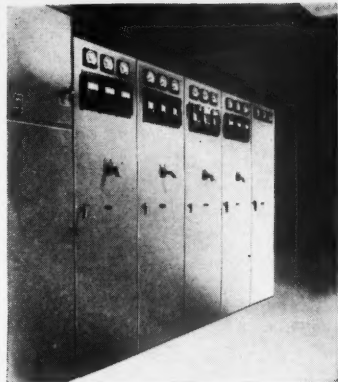


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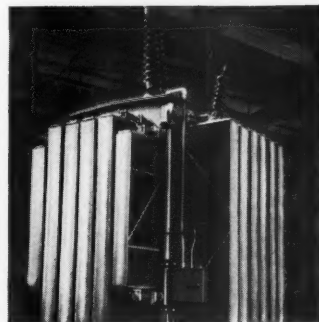
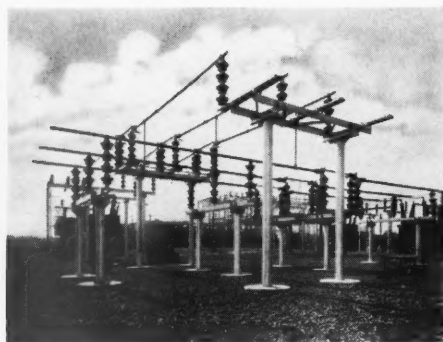
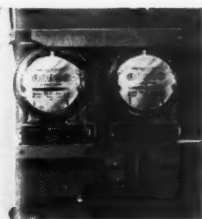
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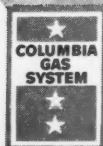
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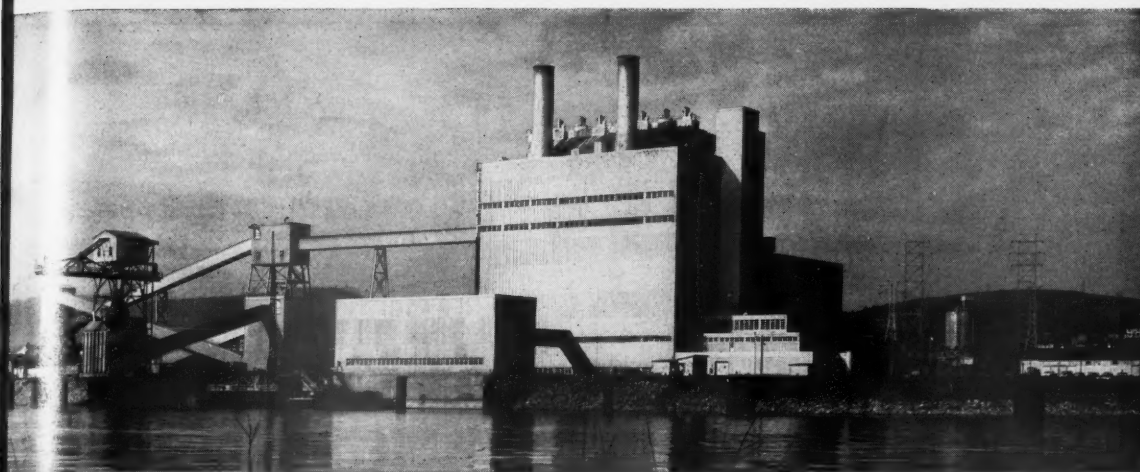
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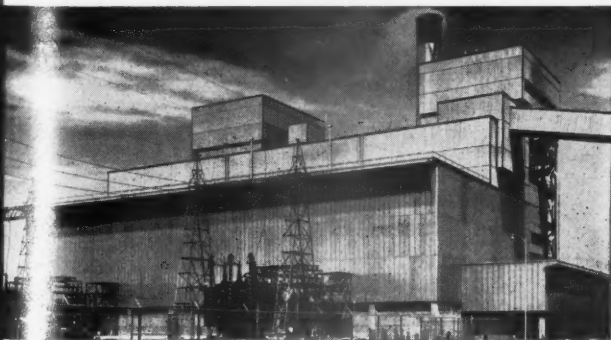
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JANUARY



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# UTILITIES

## *A.l.m.a.n.a.c.k*

### JANUARY

<b>Thursday—2</b> <i>National Association of Home Builders will hold convention, Chicago, Ill. Jan. 19-23. Advance notice.</i>	<b>Friday—3</b> <i>American Institute of Electrical Engineers will hold winter general meeting, New York, N. Y. Jan. 20-24. Advance notice.</i>	<b>Saturday—4</b> <i>Industrial Heating Equipment Association will hold meeting, Pittsburgh, Pa. Jan. 27, 28. Advance notice.</i>	<b>Sunday—5</b> <i>American Society of Heating and Air Conditioning Engineers will hold annual meeting, Pittsburgh, Pa. Jan. 27-29. Advance notice.</i> 
<b>Monday—6</b> <i>International Home Furnishings Market opens Chicago, Ill.</i>	<b>Tuesday—7</b> <i>Home Improvement Products Show will be held, Chicago, Ill. Jan. 27-29. Advance notice.</i>	<b>Wednesday—8</b> <i>American Gas Association ends 3-day Home Service Workshop, Minneapolis, Minn.</i>	<b>Thursday—9</b> <i>Edison Electric Institute begins annual LBE national women's conference, Chicago, Ill.</i>
<b>Friday—10</b> <i>Southern Gas Association begins employee relations round-table conference, Englewood Park, Miss.</i>	<b>Saturday—11</b> <i>Annual Conference of Doble Clients will be held, Boston, Mass. Jan. 27-31. Advance notice.</i>	<b>Sunday—12</b> <i>American Water Works Association, New York Section, will hold midwinter luncheon meeting, New York, N. Y. Jan. 28. Advance notice.</i> 	<b>Monday—13</b> <i>Annual Institute on the Law of Oil and Gas and Taxation will be held, Dallas, Tex. Jan. 29-31. Advance notice.</i>
<b>Tuesday—14</b> <i>Instrument Society of America, Boston Section, begins Yankee instrument fair and symposium, Boston, Mass.</i>	<b>Wednesday—15</b> <i>Pennsylvania Electric Association, Prime Movers Committee, will hold meeting, Hershey, Pa. Jan. 30, 31. Advance notice.</i>	<b>Thursday—16</b> <i>Edison Electric Institute, Industrial Relations Committee, begins meeting, Washington, D. C.</i>	<b>Friday—17</b> <i>Oklahoma Utilities Association, Accounting Section, begins meeting, Tulsa, Okla.</i>



*Courtesy, Argonne National Laboratory*

### **Nuclear Nocturne**

*The experimental boiling water reactor at the Atomic Energy Commission's installations near Lemont, Illinois.*

# Public Utilities

## *FORTNIGHTLY*

VOL. 61, No. 1



JANUARY 2, 1958

## The Outlook for Public Utilities—1958

With the New Year will come the convocation of another session of the 85th Congress. Here is an analysis of the possible consequences of new developments in Congress and federal agencies respecting various utility industries during 1958.

By FRANCIS X. WELCH\*

**T**HE New Year will start off with most emphasis in Congress on defense spending and foreign commitments. Complications growing out of the recent "summit" conference of the North Atlantic Treaty Organization have increased the tempo of all activities along this line in the nation's capital. One would think, therefore, that the political pressure on public utilities would be correspondingly eased with this diversion of congress-

sional attention from domestic issues.

But such is not the case. Even in the realm of defense spending and national defense policy there are overtones having considerable impact on the utility industries in such areas as federal income and excise taxes, and nuclear power plant development by the Atomic Energy Commission.

Even the administration's effort to cut the budget for nondefense projects will stir up political opposition in Con-

\*Editor, PUBLIC UTILITIES FORTNIGHTLY.

## PUBLIC UTILITIES FORTNIGHTLY

gress, with glancing blows at the long familiar targets of business-managed electric utility companies.

The fact is that despite the pious protestations inspired by the missile and satellite controversies, there has been no adjournment of politics in Congress. On the contrary, the Democratic majority, considering the unbroken trend of special elections and the present, if temporary, ebb in the administration's prestige for leadership, is confident of gains next fall. And in anticipation there has been a general refurbishing of issues, both old and new, foreign and domestic. Among the perennial issues, of course, is the strong line taken by some members of the majority in favor of government power development and critical of big business, especially the utility business.

THIS is not to say, however, that everything will turn out next November exactly as Senator Morse (Democrat, Oregon), to pick a more articulate exponent of the government power point of view, would wish. But it does mean that as Congress opens, Senator Morse and some of his equally articulate colleagues will have a lot to say and do in preparation for a red-hot congressional campaign next fall.

Between now and then, of course, it is entirely possible that the political wheel will turn again and that other intervening events will overshadow domestic politicking. For the immediate future we can only say that there will be a great deal of it and that the President will have to use his veto power more than once to block legislation definitely hostile to the administration's policies in these areas.

**1. Breakers ahead for federal commissions.** Shifting from the general to the particular, one of the most difficult situations for the administration seems to be building up around the work of the Moulder Committee, otherwise known as the House Subcommittee on Legislative Oversight. This group has been investigating the federal regulatory commissions for some months to discover evidence of irregularities in practices and failure to carry out the intent of Congress. Offhand, those would seem to be two perfectly proper objectives for a congressional investigation.

The committee's staff is headed by a distinguished legal scholar, Professor Bernard Schwartz of the New York University Law School, and it must be presumed that he will endeavor to keep the investigation on an objective level. But, as a practical matter, it will be impossible to keep politics out of such a setup. During the past six years of the Eisenhower administration these commissions have come increasingly under the control of White House appointees. The margin of holdover members from the old Roosevelt-Truman régimes has shrunk, even though that influence remains very considerable at the staff level. In fact, it may be that the combination of congressional disquiet and staff discussion (extramural) is responsible for much of the rumor and petty charges which the Moulder Committee staff has been busy running down. Whatever the reason, the committee is going to call all of the federal commissions and staff on the carpet during the coming year, starting with the FCC.

OF course, during this inquisition the committee will get around to the

## RESULTS OF 1957 PROPHECY

||| *Nine out of ten predictions by Mr. Welch one year ago occurred as forecast, other items are still pending.* |||

### Forecast

1. *No change in taxes.* It was predicted that the continued inflation and international tension would prevent any drive to reduce taxes from getting anywhere, whether for personal or business income or excise taxes.

2. *The gas producer bill.* It was predicted that the Harris Bill would not be enacted in 1957 unless promptly considered by Congress and supported by a united gas industry.

3. *Battle over TVA partnership policy.* It was predicted that TVA would stay in Knoxville despite efforts to move it, that a compromise plan to make TVA self-supporting would be agitated but not passed, that no change in the administration's partnership policy would occur.

4. *Snake river developments.* It was predicted that "The U. S. Supreme Court will finally vindicate the legality of the FPC licenses to the Idaho Power Company" and that the "Interior Department itself may announce a new plan" for a storage dam on the Snake.

5. *A modified atom plant.* It was forecast that a compromise bill plan for letting the AEC take the leadership in developing power plants would be passed, and that atomic insurance legislation would also be passed.

6. *More rate case activity.* Continued inflation and more public service demand complicated by tight money financing were viewed as making more rate cases in various states.

7. *Niagara legislation.* It was predicted that the FPC would block New York state's effort to go ahead with Niagara without congressional approval but that Congress would approve a bill authorizing such development by the state.

8. *Radio frequencies and the telephone.* Competition for radio frequencies useful for new forms of telephone service was seen as causing regulatory problems before the FCC with favorable results for the telephone companies.

9. *Highway relocation struggle.* A lot of bills, a minority of which would be enacted into law, was foreseen with a long pull ahead.

10. *Other state legislation.* Despite meetings for nearly all of the state legislatures, not much regulatory law was expected.

### Result

RIGHT

RIGHT

*Such support and prompt action were not forthcoming.*

RIGHT

RIGHT

*In both developments.*

RIGHT

RIGHT

RIGHT

*In both instances.*

PENDING

*These proceedings are still unresolved.*

RIGHT

*Reimbursement laws were passed in 15 states; six were vetoed; 15 failed to pass.*

RIGHT

*Only two state laws were enacted—Maine and Minnesota.*



## PUBLIC UTILITIES FORTNIGHTLY

Federal Power Commission. Just to hint at the sort of thing in prospect, the committee has armed itself with FCC expense account records and microphone recordings of incoming and outgoing telephone calls at the FCC, as well as expense records covering attendance at radio and television conventions and regional meetings.

No real scandal is in sight, but we can expect some embarrassment and heckling.

A much more serious consideration than some petty free loading at the regulatory level is the view taken by some of the Congressmen as to the responsibility of these commissions. Granted that they should not be under the influence of the executive branch, should they be under the influence of Congress? What has happened to the old ideal of a truly independent commission? Fostering such an ideal certainly would not result from tying these commissions to congressional apron strings.

CONSIDER the serious import of the statement accredited to a member of this investigating committee, Representative Moss (Democrat, California). He commented on one possible result of the investigation, saying:

We could decide the commission-type agency is not the answer, that Congress should go right in and directly control all aspects of their operations.

This comment recalls the kind of legislation introduced last year by Pacific Northwest Democratic Senators to curb the powers of the Federal Power Commission to license hydro projects without congressional approval.

2. *No gas legislation.* The chances for enactment of the Harris Bill have not improved over the past year. This is the bill to relieve natural gas producers of the full brunt of FPC regulatory control. Even as finally presented at the last session, the Harris Bill was not an outright exemption bill. It merely tended to dilute the extent of FPC jurisdiction over producers. Without going into details, it is this observer's feeling that there will have to be a lot more dilution if any legislation is to be finally passed at the forthcoming session. And since the extent of that dilution may not seem to the producers themselves to be worth the proverbial candle in the politically hazardous game of trying to jockey a measure through Congress during an election year, a stalemate could easily result.

Speaking of gas legislation brings up an additional complication in the light of the recent decision of the U. S. circuit court of appeals for the District of Columbia in the so-called Memphis case. This decision, which virtually holds that the FPC has been wrongfully construing the effect of § 4(d) gas rate increases for pipeline companies for nineteen years, has caused considerable upheaval. The FPC itself has been so dismayed at the prospect of converting all of its rate increases under bond cases (which is the course taken under § 4(d)) into the more cumbersome and uncertain § 5 type cases, that an appeal for legislative clarification may be in order.

The trouble here is one of timing. Although the FPC has already planned to have this decision appealed to the U. S. Supreme Court, **the only way** the highest court could dispose of the matter during





### No Holiday for Utility Criticism

**T**HE New Year will start off with most emphasis in Congress on defense spending and foreign commitments. Complications growing out of the recent 'summit' conference of the North Atlantic Treaty Organization have increased the tempo of all activities along this line in the nation's capital. One would think, therefore, that the political pressure on public utilities would be correspondingly eased with this diversion of congressional attention from domestic issues. But such is not the case. Even in the realm of defense spending and national defense policy there are overtones having considerable impact on the utility industries in such areas as federal income and excise taxes, and nuclear power plant development by the Atomic Energy Commission."

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the coming congressional session would be to deny certiorari, thereby in effect affirming the lower court. If the court took such action early enough in the spring of 1958, it would give Congress a green light to act on remedial legislation. But if the highest court agreed to review the Memphis decision (and that would seem more probable) there would not be time for final disposition by the court before the adjournment of the present Congress. So the prospects are slim that there will be any gas legislation either for the relief of the producers or for the relief of the pipeline companies during the coming ses-

sion—much though it may be needed in both cases.

**3.** *No changes in taxes.* Last fall the telephone industry, both Bell and independent, decided that an effort was in order to remove the federal excise taxes now on the level of 10 per cent. These taxes, originally imposed during the economic emergency of the depression of the thirties, and greatly expanded during World War II, are still being collected twelve years after the cessation of hostilities. Recent federal-state efforts to shift responsibility for their collection (among

## PUBLIC UTILITIES FORTNIGHTLY

other responsibilities) in part to the states, probably spurred the telephone industry to take action. Obviously, if the collection of these taxes gets established and scattered over 48 states, the chance of eventual repeal or curtailment will not be improved.

But for the coming year at least the outlook is very dim for this type of tax relief and for any kind of business tax relief. That goes for corporate income taxes as well. Despite advance estimates of increased government tax collections, the burden of the stepped-up missile program and other defense spending makes it doubtful if the administration can balance the budget even under present tax collections.

4. *No TVA legislation.* There will be much pulling and hauling over the Tennessee Valley Authority at the next session of Congress. For several years TVA has limped along on a stopgap agreement permitting TVA to apply power revenues to take care of existing plant expansion. But the TVA needs some definite policy decision, augmented by appropriation commitments, if it is to plan solidly for future operations. So far the administration has not receded from its earlier stand that the TVA cannot go on taking the responsibility for the entire electric power supply in the TVA area, notwithstanding the constant expansion of the local demand. Efforts to put TVA on a self-sustaining basis, through the issuance of revenue bonds and other suggestions, have run into congressional reluctance to cut TVA entirely loose from control of its purse strings on Capitol Hill.

If there were not politically divided responsibility between the executive and

legislative branches, the present TVA management could probably work out some solution. For the first time since the Eisenhower administration took office, the TVA is now under the majority control of White House appointees. But the majority in Congress, torn by internal dissension as to what to do about TVA over the long range, would still like to write its own ticket on TVA. Under present uncertain circumstances, the immediate outlook is for no TVA legislation during the coming year. This will mean another twelve months of stopgap appropriations.

5. *Public ownership in the Northwest.* Reference has already been made to the bills introduced in Congress last year to take away the authority of the Federal Power Commission to license hydroelectric developments without the consent or review of Congress. Such legislation will not prevail because of the veto authority at the White House, but there will be a stiff fight against efforts of public utility companies to build badly needed power projects in the Pacific Northwest.

Nothing is likely to be done about the persistent efforts of some Pacific Northwest Senators to authorize a federal high dam at Hell's Canyon. The Idaho Power Company already has made too much progress under its license issued by the Federal Power Commission and upheld after long litigation in the federal courts. But that will not stop the government power bloc in Congress from keeping up the controversy over Hell's Canyon and other Snake river developments.

The proposal of private power company interests to build a dam at the Mountain Sheep site will probably be approved by the Federal Power Commission, be-

## THE OUTLOOK FOR PUBLIC UTILITIES—1958

### Predictions of Events for 1958

(Here is a summary of the things likely to occur in Washington of special concern to the public utility industry.)

1. *Breakers ahead for federal commissions.* The staff of the Moulder Committee, otherwise known as the House Subcommittee on Legislative Oversight, is planning some uncomfortable moments during the coming year for federal commissions and regulated industries. The idea is to show that regulated industries have been more liberal than proper in dispensing hospitality, etc., and too informal in contacting federal regulators and commission staff. First on the carpet will be the FCC for reported favors done by successful TV applicants in controversial cases. During the year, however, the staff expects to get around to the FPC.
2. *No gas legislation.* As for proposed amendments to the Natural Gas Act, the coming congressional session may see a double feature—the Harris Bill to relieve producers of full-scale FPC regulation and a bill to allow pipeline companies to file rate increases under bond such as recently thrown out by a United States circuit court of appeals in the so-called Memphis case. The outlook, however, is against final action on either at this session.
3. *No changes in taxes.* Despite advance estimates of increased government tax collections and special efforts by the telephone-telegraph industries to get rid of their 10 per cent excise taxes, tax reductions for any kind of business look pretty hopeless for the coming year. Foreign commitments and the burden of stepped-up missile program are responsible.
4. *No TVA legislation.* For the first time since the Eisenhower administration took office, TVA will be under majority control of directors of the President's own choice. There will doubtless be an effort to revive or compromise various proposals to put the TVA on a self-sustaining basis through the issuance of revenue bonds, etc. But the Democratic majority in Congress, feeling a victory in their bones during the coming congressional election next fall, will not be disposed to accede to administration ideas. Result: stalemate for another year.
5. *Public ownership in the Northwest.* The next session of Congress is likely to witness a fight by the government power advocates against efforts of public utilities to build badly needed power projects in the Pacific Northwest. The Snake river licenses for the Idaho Power Company (including Hell's Canyon) will not be disturbed, although they will be raked over again at length. But private company proposals to build a dam at the Mountain Sheep site, if approved by the FPC—as seems likely—will unleash a new drive for a law to curtail FPC licensing powers. It will not succeed because of the veto power of the White House. But it will make political medicine for the campaign next fall which is probably what the power bloc is more concerned about anyhow.
6. *Economy wave and public projects.* The congressional majority will protest the administration's efforts to offset the tremendous new additional expenditures needed for missile developments by slashing public works programs. Actually the Reclamation Bureau and Army Engineers' projects may feel the effect of the economy ax, but such political favorites as the cheap REA interest rates on long-term loans will not be changed.
7. *Atom plant building by AEC.* Notwithstanding the economy drive to offset missile expenditures, there is a good chance that Congress and the administration will agree that the AEC should directly build more nuclear power plants. The old Gore-Holifield Bill will be dusted off and given a new look with fresh emphasis on the argument that "We cannot let Russia get ahead of us in this field." The AEC hitherto adamant against being diverted into power plant business may have to yield ground and go along with Congressmen who think that AEC should lead the way in this field.
8. *FCC and the telephone companies.* Still pending before the FCC are several very important matters affecting the telephone companies. Specifically there is the question of whether Bell companies should be permitted to lease private mobile radiotelephone systems. There is also the question of allocation frequencies in the microwave area. As to mobile radiotelephone, the FCC will probably authorize the telephone company tariffs, notwithstanding Justice Department opposition. The microwave radio frequency proceedings, however, are so broad and complicated that it is doubtful if the FCC can dispose of this matter entirely during 1958 although they have been long pending.
9. *State regulation.* Continued inflation is bound to result in at least as much rate case activity as in 1957. As in the past several years, the increasing disparity between cost and value in public utility plant investment will keep up the pressure to examine or re-examine traditional attitudes on the cost base, depreciation theories, etc. New state legislation, however, is not likely to be forthcoming since 1958 is the "off" year for most of the state legislatures.
10. *Accelerated depreciation.* The arguments over whether to "normalize" or not to "normalize" income tax expenses for utilities taking advantage of accelerated depreciation deductions will continue to occupy the attention of many state commissions.

## PUBLIC UTILITIES FORTNIGHTLY

cause there does not seem to be any substantial evidence in opposition produced before the commission. But the same forces which managed to put a Hell's Canyon bill through the Senate last year could probably make at least that much progress on another federal dam authorization bill at Nez Perce, or wherever the government power bloc decides the dam should be built. Such a bill would be vetoed, of course, if passed. But that would still build up the political issue, which is what some of the Congressmen seem to have in mind mainly, in any event.

6. *The "economy wave" and federal projects.* This brings up the question of whether President Eisenhower's prediction of some weeks ago that all categories of nonessential federal spending would have to be put on the shelf, should be taken seriously. Admittedly, the Defense Department will have to be given billions more for missile and other defense spending than was expected a year ago. But every domestic spending program is a sacred cow in the eyes of some members of Congress, no matter how bad the international situation might appear.

A year ago President Eisenhower suggested that the continuation of long-term loans by the Rural Electrification Administration at interest rates considerably less than the federal government pays for its own borrowed funds should be reviewed. Bills to raise REA's interest rates were introduced and got nowhere. The chances are more bills will be introduced in the next session and they will not get anywhere either. REA is too politically popular.

About the only economy likely to

occur in this area is the curtailment of new lending authority, rather than an increase in interest rates on loans to borrowers.

The Reclamation Bureau and the Army Engineers, however, may not get off as easily as REA when the budgeteers get busy on appropriations for the coming year. There are few projects under either government agency which could not be at least deferred, and there will be strong pressure to do that very thing notwithstanding regional protests.

7. *Atom plants and the AEC.* The building of nuclear power plants to produce electricity for peacetime purposes has nothing much to contribute to atomic research and developments for military purposes. If anything, a forced program of participation by the AEC in nuclear plant building would have the inescapable effect of diverting much of its attention and energies from strictly defense activities. But that is not going to prevent a powerful drive being launched in the next Congress to put the AEC in the nuclear power plant business.

The old Gore-Holifield Bill, which would have required AEC to build a number of specified plants, will be revived in some form or another. The argument sure to be used is that, in view of the gains made by the Russians in missiles and satellites, we simply cannot afford to have Russia get ahead of us in this field.

While there is no demonstrable evidence that Russia is ahead in this field (as far as research and capability are concerned) such arguments are likely to be persuasive. And even the administration may have to back-track from its previous position that the AEC should not be



### Politics as Usual in 1958

**“T**HE fact is that despite the pious protestations inspired by the missile and satellite controversies, there has been no adjournment of politics in Congress. On the contrary, the Democratic majority, considering the unbroken trend of special elections and the present, if temporary, ebb in the administration's prestige for leadership, is confident of gains next fall. And in anticipation there has been a general refurbishing of issues, both old and new, foreign and domestic. Among the perennial issues, of course, is the strong line taken by some members of the majority in favor of government power development and critical of big business, especially the utility business.”

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pushed by Congress into an atom power plant program at this time. Compromises may be in order to keep the work of the AEC on some sort of an orderly basis.

#### 8. *FCC and the telephone companies.*

There are a number of very important radio frequency matters pending before the FCC of considerable concern to the telephone industry. One of these is the petition of the Bell system to file tariffs for maintaining private mobile radiotelephone systems. This proceeding has fallen afoul of an interpretation by the Justice Department as to the consent decree filed in January, 1956, dismissing the government's antitrust suit against

Bell system control of its manufacturing subsidiary, Western Electric Company.

Under the terms of that decree, Bell companies were to confine themselves to regulated telephone “common carrier” operations. And it is the position of the Bell system that the rendering of mobile radiotelephone service is a proper adjunct of regular common carrier telephone service and may be properly rendered under tariffs filed with the regulatory commissions. The Justice Department takes a different view and threatens to go back to court if the FCC approves the findings.

But the basic issue is much broader. Other radiotelephone interests are taking the position that the telephone companies



## PUBLIC UTILITIES FORTNIGHTLY

should not be permitted to enter this field of newly developing communication service. The Justice Department agrees and argues that it is fostering monopoly to permit the telephone companies in this line of business. The telephone companies reply that you don't foster monopoly by allowing more competition. On the contrary, it is argued that barring telephone companies from this form of competition would be fostering monopoly.

On the outcome may well depend the future scope of telephone operations in a very important field of communication service. This observer feels that the FCC will probably go along with the telephone companies in this case. The basis for that view comes from the stand taken by the FCC in an order denying a series of requests by interveners (manufacturers of other types of mobile radio equipment) and the Justice Department, to broaden the issues and take other action in the lease-maintenance case.

THE commission did agree to postpone the proceeding to give the federal district court a chance to interpret its own consent decree. But assuming that the district court throws the ball back to the FCC, the outlook is for the commission to continue the case on the original lines requested by the Bell telephone companies. The commission said in a ruling on the Justice Department's request that it had been "unable to find any basis in the specific language of the decree to support the contention of Justice and the Petroleum Industry Electrical Association that AT&T is absolutely prohibited from engaging in lease-maintenance service, regardless of whether the service is subject to public regulation."

Another radio frequency proceeding before the FCC involves microwave frequency allocation on which hearings have recently been concluded. In this proceeding both the Bell companies and the United States Independent Telephone Association are seeking to have the FCC define a policy favorable to telephone industry participation. This microwave question is so broad, however, and complicated that it is doubtful if the FCC can dispose of the matter entirely during 1958, although it has long been pending. Over seventy parties are in the case and the hearings have been going on for the best part of the year 1957. It will take a long time for the commission's staff and the commission to assimilate and draw conclusions from the great masses of technical testimony, exhibits, and data which have been loaded onto the record in this case.

9. *State regulation.* The year 1958 will be a quiet one in the matter of state regulation for the usual reason. It is not the year of the "big biennial." Most of the state legislatures do not meet in regular session. Only a handful do meet in regular session but there probably will be a number of special sessions called during the year. For this reason we do not expect many new state laws on the subject of public utility regulation.

During the past year when all of the state legislatures were in session, things were also quiet on this front. There were three exceptions: In Maine the legislature finally enacted a bill long sought by the regulatory commission of that state removing the necessity for it to consider reproduction cost or present fair value in determining a rate base for public utility

## THE OUTLOOK FOR PUBLIC UTILITIES—1958

rate regulation. It so happened that Maine also had a Democratic governor in favor of such legislation and the bill was enacted.

Offsetting this, however, was a bill moving in the other direction which was passed by the Minnesota legislature. This now requires the regulatory commission to consider replacement value or current cost in fixing utility rates. The Minnesota commission does not have jurisdiction over gas and electric utility rates, however.

Its authority is confined to telephone companies and common carriers.

**I**N the New York legislature Governor Harriman's attempt to nullify a court decision in the New York Telephone Company case was again deferred. It looks as if the state legislature might again refuse to pass Governor Harriman's demand that the New York Public Service Commission be authorized to refuse evidence of reproduction cost or replacement value in determining telephone company rates. The fact that the New York Public Service Commission decided the recent New York Telephone Company rate case without giving any substantial effect to reproduction cost evidence may now be cited as an argument that Governor Harriman's proposed legislation is

not necessary. In other words, the commission already has the discretion to do what Harriman's bill would force the commission to do.

As far as rate cases at the commission level, continued inflation is bound to result in at least as much rate case activity as in 1957, and that was considerable. Furthermore, the increasing disparity between cost and value in public utility plant investment will keep up the pressure on the state commissions to examine or re-examine their traditional attitudes on the cost base, depreciation theories, etc.

**10.** *Accelerated depreciation.* The arguments over whether to "normalize" or not to "normalize" income tax expenses for utilities taking advantage of accelerated depreciation deductions will continue to occupy the attention of many state commissions. Although the normalizing practice has gained considerable regulatory acceptance at the enacting level, the more decisive question of allowing for tax expense in actual rate cases will lead to a very definite division of opinion. But it is not to be expected that legislation in Congress to deprive utilities of accelerated depreciation deductions under the 1954 Revenue Act will become law in view of the privileges allowed all other business corporate taxpayers.

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**"I**T should be evident to everyone that our schools do not motivate and educate enough youngsters to become professionals and that the resultant shortage in trained man power is a warning signal which we must not disregard. . . . It is time we faced up to the fact that few American students at the age of twenty-one or twenty-two know as much after a four-year college course as most European secondary school graduates know at the age of eighteen or nineteen."

—REAR ADMIRAL H. G. RICKOVER,  
Chief, naval reactors branch, Atomic Energy Commission.



## Tax Reform and a Balanced Budget

Explanation of a bill which the author has introduced with bipartisan support from a colleague on the House Ways and Means Committee. This bill is for tax reform and would also moderate taxes in all brackets.

BY THE HONORABLE ANTONI N. SADLAK\*  
U. S. REPRESENTATIVE FROM CONNECTICUT

**J**ANUARY 7, 1958, could very well become one of the most significant dates in the economic history of America.

On that day the House Ways and Means Committee will open public hearings on a matter that has critical urgency for every taxpayer in the nation—the pressing, almost desperate need for income tax rate reform.

With each passing hour there is fresh evidence of how current income tax rates, with their steep progression in the middle and high income brackets, are exerting a crippling effect on the country's well-being.

Among other devastating results our present unrealistic income taxation system has:

\*For additional personal note, see "Pages with the Editors."

1. Stifled individual effort by depriving the deserving of just rewards for hard work and enterprise.

2. Seriously curtailed the flow of investment funds vitally needed for the expansion of existing businesses and the establishment of new ones.

3. Contributed, harmfully, to the inflationary pressures bedeviling the economy by forcing investment fund seekers to depend mainly on bank credit.

All of this, of course, begs a significant question: If things have reached such a deplorable state why have we failed to take action before?

The answer lies in many directions, depending upon the individual American mind.

## TAX REFORM AND A BALANCED BUDGET

But I believe that the principal cause of the inaction results from the obvious fact that the preponderance of the people have been numbed into resignation by the mental narcotic of the oppressive tax burden itself. In other words, they are so hard pressed to operate within its narrow confines that they have not had the time and energy to stage a massive attack against the system.

At the risk of self-adulation, I like to believe, too, that the opportunity for fighting a constructive battle by rallying behind an economically sound legislative measure for income tax rate reform did not arise—at least in recent years—until I introduced my bill, HR 6452, in the Congress last March.

The enthusiastic response to the bill offers convincing proof of the past lack of a battle standard to unite all forces in a determined onslaught on oppressive taxation.

My own conviction that it will have a singularly revitalizing effect on the economy by restoring true incentives for individual effort and will sharply increase the availability of venture capital, I am pleased to report, is shared by my colleague on the House Ways and Means Committee, Representative A. S. Herlong, Jr., Democrat of Florida, who raised the measure to bipartisan status by introducing an identical bill, HR 9119.

In addition, more than 200 important business and professional associations, hundreds of newspaper editors, and countless thousands of persons in all walks of the nation's life have warmly endorsed the measure.

The measure provides for forward

scheduling of reductions for *all* income taxpayers, over a period of five years, without shifting the burden to other forms of taxation and *without bringing imbalance to the budget.*

Through co-ordinated reductions the first bracket rate of individual tax would be reduced from 20 to 15 per cent, by the end of the fifth year of application, and the top rate of 91 per cent would be brought down to 42 per cent. Corporate tax rates would be reduced to 42 per cent from the present top of 52 per cent.

SPECIFIC examples of individual tax rate reductions, over the five years, follow: \$4,000 to \$6,000 bracket, from 26 to 17 per cent; \$8,000 to \$10,000 bracket, from 34 to 19 per cent; \$12,000 to \$14,000 bracket, from 43 to 21 per cent; \$16,000 to \$18,000 bracket, from 50 to 23 per cent; and \$20,000 to \$22,000 bracket, from 56 to 25 per cent.

This legislation is designed, primarily, to moderate the tax impact on individuals and on small and growing business, and to eliminate the tax barrier to starting new businesses.

The problem confronting these enterprises is entirely a matter of rates. Both as regards unincorporated businesses, which approximate 84 per cent of the over 4 million business units in the country, and the owners of incorporated small businesses, the major tax impediment is the system of steeply graduated rates of individual tax—the rates which begin with 22 per cent on taxable income between \$2,000 and \$4,000, increase rapidly to a rate of 50 per cent on taxable income between \$16,000 and \$18,000, and go on up to a top rate of 91 per cent.

The incorporated firms have the addi-

# PUBLIC UTILITIES FORTNIGHTLY

The tax		Would be: Year 1962
If the taxable income is—	Is: Present law	
Not over \$2,000 .....	20 per cent of the taxable income .....	15 per cent of the taxable income.
Over \$2,000 but not over \$4,000 .....	\$400, plus 22 per cent of excess over \$2,000 .....	\$300, plus 16 per cent of excess over \$2,000.
Over \$4,000 but not over \$6,000 .....	\$800, plus 20 per cent of excess over \$4,000 .....	\$620, plus 17 per cent of excess over \$4,000.
Over \$6,000 but not over \$8,000 .....	\$1,200, plus 30 per cent of excess over \$6,000 .....	\$960, plus 18 per cent of excess over \$6,000.
Over \$8,000 but not over \$10,000 .....	\$1,600, plus 30 per cent of excess over \$8,000 .....	\$1,280, plus 19 per cent of excess over \$8,000.
Over \$10,000 but not over \$12,000 .....	\$2,000, plus 38 per cent of excess over \$10,000 .....	\$1,520, plus 21 per cent of excess over \$10,000.
Over \$12,000 but not over \$14,000 .....	\$2,400, plus 38 per cent of excess over \$12,000 .....	\$1,760, plus 21 per cent of excess over \$12,000.
Over \$14,000 but not over \$16,000 .....	\$2,800, plus 43 per cent of excess over \$14,000 .....	\$2,100, plus 22 per cent of excess over \$14,000.
Over \$16,000 but not over \$18,000 .....	\$3,200, plus 43 per cent of excess over \$16,000 .....	\$2,520, plus 22 per cent of excess over \$16,000.
Over \$18,000 but not over \$20,000 .....	\$3,600, plus 47 per cent of excess over \$18,000 .....	\$2,940, plus 23 per cent of excess over \$18,000.
Over \$20,000 but not over \$22,000 .....	\$4,000, plus 50 per cent of excess over \$20,000 .....	\$3,420, plus 24 per cent of excess over \$20,000.
Over \$22,000 but not over \$24,000 .....	\$4,400, plus 50 per cent of excess over \$22,000 .....	\$3,900, plus 25 per cent of excess over \$22,000.
Over \$24,000 but not over \$26,000 .....	\$4,800, plus 53 per cent of excess over \$24,000 .....	\$4,400, plus 26 per cent of excess over \$24,000.
Over \$26,000 but not over \$28,000 .....	\$5,200, plus 53 per cent of excess over \$26,000 .....	\$4,900, plus 26 per cent of excess over \$26,000.
Over \$28,000 but not over \$30,000 .....	\$5,600, plus 55 per cent of excess over \$28,000 .....	\$5,400, plus 27 per cent of excess over \$28,000.
Over \$30,000 but not over \$32,000 .....	\$6,000, plus 55 per cent of excess over \$30,000 .....	\$5,900, plus 27 per cent of excess over \$30,000.
Over \$32,000 but not over \$34,000 .....	\$6,400, plus 56 per cent of excess over \$32,000 .....	\$6,400, plus 28 per cent of excess over \$32,000.
Over \$34,000 but not over \$36,000 .....	\$6,800, plus 56 per cent of excess over \$34,000 .....	\$6,900, plus 28 per cent of excess over \$34,000.
Over \$36,000 but not over \$38,000 .....	\$7,200, plus 59 per cent of excess over \$36,000 .....	\$7,400, plus 29 per cent of excess over \$36,000.
Over \$38,000 but not over \$40,000 .....	\$7,600, plus 59 per cent of excess over \$38,000 .....	\$8,100, plus 30 per cent of excess over \$38,000.
Over \$40,000 but not over \$42,000 .....	\$8,000, plus 65 per cent of excess over \$40,000 .....	\$8,700, plus 30 per cent of excess over \$40,000.
Over \$42,000 but not over \$44,000 .....	\$8,400, plus 65 per cent of excess over \$42,000 .....	\$9,100, plus 31 per cent of excess over \$42,000.
Over \$44,000 but not over \$46,000 .....	\$8,800, plus 69 per cent of excess over \$44,000 .....	\$9,600, plus 31 per cent of excess over \$44,000.
Over \$46,000 but not over \$48,000 .....	\$9,200, plus 69 per cent of excess over \$46,000 .....	\$10,100, plus 32 per cent of excess over \$46,000.
Over \$48,000 but not over \$50,000 .....	\$9,600, plus 72 per cent of excess over \$48,000 .....	\$10,600, plus 32 per cent of excess over \$48,000.
Over \$50,000 but not over \$52,000 .....	\$10,000, plus 72 per cent of excess over \$50,000 .....	\$11,100, plus 33 per cent of excess over \$50,000.
Over \$52,000 but not over \$54,000 .....	\$10,400, plus 75 per cent of excess over \$52,000 .....	\$11,600, plus 33 per cent of excess over \$52,000.
Over \$54,000 but not over \$56,000 .....	\$10,800, plus 75 per cent of excess over \$54,000 .....	\$12,100, plus 34 per cent of excess over \$54,000.
Over \$56,000 but not over \$58,000 .....	\$11,200, plus 78 per cent of excess over \$56,000 .....	\$12,600, plus 34 per cent of excess over \$56,000.
Over \$58,000 but not over \$60,000 .....	\$11,600, plus 78 per cent of excess over \$58,000 .....	\$13,100, plus 36 per cent of excess over \$58,000.
Over \$60,000 but not over \$62,000 .....	\$12,000, plus 81 per cent of excess over \$60,000 .....	\$13,600, plus 36 per cent of excess over \$60,000.
Over \$62,000 but not over \$64,000 .....	\$12,400, plus 81 per cent of excess over \$62,000 .....	\$14,100, plus 36 per cent of excess over \$62,000.
Over \$64,000 but not over \$66,000 .....	\$12,800, plus 87 per cent of excess over \$64,000 .....	\$14,600, plus 38 per cent of excess over \$64,000.
Over \$66,000 but not over \$68,000 .....	\$13,200, plus 87 per cent of excess over \$66,000 .....	\$15,100, plus 38 per cent of excess over \$66,000.
Over \$68,000 but not over \$70,000 .....	\$13,600, plus 89 per cent of excess over \$68,000 .....	\$15,600, plus 40 per cent of excess over \$68,000.
Over \$70,000 but not over \$72,000 .....	\$14,000, plus 89 per cent of excess over \$70,000 .....	\$16,100, plus 40 per cent of excess over \$70,000.
Over \$72,000 but not over \$74,000 .....	\$14,400, plus 91 per cent of excess over \$72,000 .....	\$16,600, plus 42 per cent of excess over \$72,000.
Over \$74,000 but not over \$76,000 .....	\$14,800, plus 91 per cent of excess over \$74,000 .....	\$17,100, plus 42 per cent of excess over \$74,000.
Over \$76,000 but not over \$78,000 .....	\$15,200, plus 91 per cent of excess over \$76,000 .....	\$17,600, plus 42 per cent of excess over \$76,000.
Over \$78,000 but not over \$80,000 .....	\$15,600, plus 91 per cent of excess over \$78,000 .....	\$18,100, plus 42 per cent of excess over \$78,000.
Over \$80,000 but not over \$82,000 .....	\$16,000, plus 91 per cent of excess over \$80,000 .....	\$18,600, plus 42 per cent of excess over \$80,000.
Over \$82,000 but not over \$84,000 .....	\$16,400, plus 91 per cent of excess over \$82,000 .....	\$19,100, plus 42 per cent of excess over \$82,000.
Over \$84,000 but not over \$86,000 .....	\$16,800, plus 91 per cent of excess over \$84,000 .....	\$19,600, plus 42 per cent of excess over \$84,000.
Over \$86,000 but not over \$88,000 .....	\$17,200, plus 91 per cent of excess over \$86,000 .....	\$20,100, plus 42 per cent of excess over \$86,000.
Over \$88,000 but not over \$90,000 .....	\$17,600, plus 91 per cent of excess over \$88,000 .....	\$20,600, plus 42 per cent of excess over \$88,000.
Over \$90,000 but not over \$92,000 .....	\$18,000, plus 91 per cent of excess over \$90,000 .....	\$21,100, plus 42 per cent of excess over \$90,000.
Over \$92,000 but not over \$94,000 .....	\$18,400, plus 91 per cent of excess over \$92,000 .....	\$21,600, plus 42 per cent of excess over \$92,000.
Over \$94,000 but not over \$96,000 .....	\$18,800, plus 91 per cent of excess over \$94,000 .....	\$22,100, plus 42 per cent of excess over \$94,000.
Over \$96,000 but not over \$98,000 .....	\$19,200, plus 91 per cent of excess over \$96,000 .....	\$22,600, plus 42 per cent of excess over \$96,000.
Over \$98,000 but not over \$100,000 .....	\$19,600, plus 91 per cent of excess over \$98,000 .....	\$23,100, plus 42 per cent of excess over \$98,000.
Over \$100,000 but not over \$102,000 .....	\$20,000, plus 91 per cent of excess over \$100,000 .....	\$23,600, plus 42 per cent of excess over \$100,000.
Over \$102,000 but not over \$104,000 .....	\$20,400, plus 91 per cent of excess over \$102,000 .....	\$24,100, plus 42 per cent of excess over \$102,000.
Over \$104,000 but not over \$106,000 .....	\$20,800, plus 91 per cent of excess over \$104,000 .....	\$24,600, plus 42 per cent of excess over \$104,000.
Over \$106,000 but not over \$108,000 .....	\$21,200, plus 91 per cent of excess over \$106,000 .....	\$25,100, plus 42 per cent of excess over \$106,000.
Over \$108,000 but not over \$110,000 .....	\$21,600, plus 91 per cent of excess over \$108,000 .....	\$25,600, plus 42 per cent of excess over \$108,000.
Over \$110,000 but not over \$112,000 .....	\$22,000, plus 91 per cent of excess over \$110,000 .....	\$26,100, plus 42 per cent of excess over \$110,000.
Over \$112,000 but not over \$114,000 .....	\$22,400, plus 91 per cent of excess over \$112,000 .....	\$26,600, plus 42 per cent of excess over \$112,000.
Over \$114,000 but not over \$116,000 .....	\$22,800, plus 91 per cent of excess over \$114,000 .....	\$27,100, plus 42 per cent of excess over \$114,000.
Over \$116,000 but not over \$118,000 .....	\$23,200, plus 91 per cent of excess over \$116,000 .....	\$27,600, plus 42 per cent of excess over \$116,000.
Over \$118,000 but not over \$120,000 .....	\$23,600, plus 91 per cent of excess over \$118,000 .....	\$28,100, plus 42 per cent of excess over \$118,000.
Over \$120,000 but not over \$122,000 .....	\$24,000, plus 91 per cent of excess over \$120,000 .....	\$28,600, plus 42 per cent of excess over \$120,000.
Over \$122,000 but not over \$124,000 .....	\$24,400, plus 91 per cent of excess over \$122,000 .....	\$29,100, plus 42 per cent of excess over \$122,000.
Over \$124,000 but not over \$126,000 .....	\$24,800, plus 91 per cent of excess over \$124,000 .....	\$29,600, plus 42 per cent of excess over \$124,000.
Over \$126,000 but not over \$128,000 .....	\$25,200, plus 91 per cent of excess over \$126,000 .....	\$30,100, plus 42 per cent of excess over \$126,000.
Over \$128,000 but not over \$130,000 .....	\$25,600, plus 91 per cent of excess over \$128,000 .....	\$30,600, plus 42 per cent of excess over \$128,000.
Over \$130,000 but not over \$132,000 .....	\$26,000, plus 91 per cent of excess over \$130,000 .....	\$31,100, plus 42 per cent of excess over \$130,000.
Over \$132,000 but not over \$134,000 .....	\$26,400, plus 91 per cent of excess over \$132,000 .....	\$31,600, plus 42 per cent of excess over \$132,000.
Over \$134,000 but not over \$136,000 .....	\$26,800, plus 91 per cent of excess over \$134,000 .....	\$32,100, plus 42 per cent of excess over \$134,000.
Over \$136,000 but not over \$138,000 .....	\$27,200, plus 91 per cent of excess over \$136,000 .....	\$32,600, plus 42 per cent of excess over \$136,000.
Over \$138,000 but not over \$140,000 .....	\$27,600, plus 91 per cent of excess over \$138,000 .....	\$33,100, plus 42 per cent of excess over \$138,000.
Over \$140,000 but not over \$142,000 .....	\$28,000, plus 91 per cent of excess over \$140,000 .....	\$33,600, plus 42 per cent of excess over \$140,000.
Over \$142,000 but not over \$144,000 .....	\$28,400, plus 91 per cent of excess over \$142,000 .....	\$34,100, plus 42 per cent of excess over \$142,000.
Over \$144,000 but not over \$146,000 .....	\$28,800, plus 91 per cent of excess over \$144,000 .....	\$34,600, plus 42 per cent of excess over \$144,000.
Over \$146,000 but not over \$148,000 .....	\$29,200, plus 91 per cent of excess over \$146,000 .....	\$35,100, plus 42 per cent of excess over \$146,000.
Over \$148,000 but not over \$150,000 .....	\$29,600, plus 91 per cent of excess over \$148,000 .....	\$35,600, plus 42 per cent of excess over \$148,000.
Over \$150,000 but not over \$152,000 .....	\$30,000, plus 91 per cent of excess over \$150,000 .....	\$36,100, plus 42 per cent of excess over \$150,000.
Over \$152,000 but not over \$154,000 .....	\$30,400, plus 91 per cent of excess over \$152,000 .....	\$36,600, plus 42 per cent of excess over \$152,000.
Over \$154,000 but not over \$156,000 .....	\$30,800, plus 91 per cent of excess over \$154,000 .....	\$37,100, plus 42 per cent of excess over \$154,000.
Over \$156,000 but not over \$158,000 .....	\$31,200, plus 91 per cent of excess over \$156,000 .....	\$37,600, plus 42 per cent of excess over \$156,000.
Over \$158,000 but not over \$160,000 .....	\$31,600, plus 91 per cent of excess over \$158,000 .....	\$38,100, plus 42 per cent of excess over \$158,000.
Over \$160,000 but not over \$162,000 .....	\$32,000, plus 91 per cent of excess over \$160,000 .....	\$38,600, plus 42 per cent of excess over \$160,000.
Over \$162,000 but not over \$164,000 .....	\$32,400, plus 91 per cent of excess over \$162,000 .....	\$39,100, plus 42 per cent of excess over \$162,000.
Over \$164,000 but not over \$166,000 .....	\$32,800, plus 91 per cent of excess over \$164,000 .....	\$39,600, plus 42 per cent of excess over \$164,000.
Over \$166,000 but not over \$168,000 .....	\$33,200, plus 91 per cent of excess over \$166,000 .....	\$40,100, plus 42 per cent of excess over \$166,000.
Over \$168,000 but not over \$170,000 .....	\$33,600, plus 91 per cent of excess over \$168,000 .....	\$40,600, plus 42 per cent of excess over \$168,000.
Over \$170,000 but not over \$172,000 .....	\$34,000, plus 91 per cent of excess over \$170,000 .....	\$41,100, plus 42 per cent of excess over \$170,000.
Over \$172,000 but not over \$174,000 .....	\$34,400, plus 91 per cent of excess over \$172,000 .....	\$41,600, plus 42 per cent of excess over \$172,000.
Over \$174,000 but not over \$176,000 .....	\$34,800, plus 91 per cent of excess over \$174,000 .....	\$42,100, plus 42 per cent of excess over \$174,000.
Over \$176,000 but not over \$178,000 .....	\$35,200, plus 91 per cent of excess over \$176,000 .....	\$42,600, plus 42 per cent of excess over \$176,000.
Over \$178,000 but not over \$180,000 .....	\$35,600, plus 91 per cent of excess over \$178,000 .....	\$43,100, plus 42 per cent of excess over \$178,000.
Over \$180,000 but not over \$182,000 .....	\$36,000, plus 91 per cent of excess over \$180,000 .....	\$43,600, plus 42 per cent of excess over \$180,000.
Over \$182,000 but not over \$184,000 .....	\$36,400, plus 91 per cent of excess over \$182,000 .....	\$44,100, plus 42 per cent of excess over \$182,000.
Over \$184,000 but not over \$186,000 .....	\$36,800, plus 91 per cent of excess over \$184,000 .....	\$44,600, plus 42 per cent of excess over \$184,000.
Over \$186,000 but not over \$188,000 .....	\$37,200, plus 91 per cent of excess over \$186,000 .....	\$45,100, plus 42 per cent of excess over \$186,000.
Over \$188,000 but not over \$190,000 .....	\$37,600, plus 91 per cent of excess over \$188,000 .....	\$45,600, plus 42 per cent of excess over \$188,000.
Over \$190,000 but not over \$192,000 .....	\$38,000, plus 91 per cent of excess over \$190,000 .....	\$46,100, plus 42 per cent of excess over \$190,000.
Over \$192,000 but not over \$194,000 .....	\$38,400, plus 91 per cent of excess over \$192,000 .....	\$46,600, plus 42 per cent of excess over \$192,000.
Over \$194,000 but not over \$196,000 .....	\$38,800, plus 91 per cent of excess over \$194,000 .....	\$47,100, plus 42 per cent of excess over \$194,000.
Over \$196,000 but not over \$198,000 .....	\$39,200, plus 91 per cent of excess over \$196,000 .....	\$47,600, plus 42 per cent of excess over \$196,000.
Over \$198,000 but not over \$200,000 .....	\$39,600, plus 91 per cent of excess over \$198,000 .....	\$48,100, plus 42 per cent of excess over \$198,000.
Over \$200,000 .....	\$40,000, plus 91 per cent of excess over \$200,000 .....	\$48,600, plus 42 per cent of excess over \$200,000.

tional problem of the corporate tax, especially the combined top rate of 52 per cent which applies to income over \$25,000.

THERE is ample evidence that none of the special devices suggested for the "rescue" of small businesses in other tax relief proposals are realistic since they do not deal, effectively, with the real source of the problem. Any and all of the other "remedies" would set up new inequities and discriminations within the tax laws. Many would add greatly to the complexity of the laws.

By contrast, HR 6452's moderate scale of individual and corporate rates would adequately solve the problem with fairness and equity for all. Especially, the one percentage point difference between each rate bracket from 15 per cent at the bottom to 34 per cent at the \$80,000 to \$90,000 bracket, and two percentage points thereafter would insure a minimum tax impediment to the beginning of small business and the growth of all business.

The benefits of this legislation are heavily centered in the first bracket and the lower progressive brackets of the individual income tax. Based on 1956 income levels estimated individual tax savings would total \$10.6 billion over the five-year period. Of this sum, nearly 60 per cent would fall in the taxable brackets up to \$6,000; 79 per cent of the savings would come in the taxable brackets up through \$16,000 to \$18,000, where the 50 per cent rate applies; and only 6.3 per cent of the savings would accrue to the brackets above \$50,000.

On the corporate side, savings in income taxes would total about \$4.2 billion.



## TAX REFORM AND A BALANCED BUDGET

At first reading, it would appear that the reductions would result in a "loss" of approximately \$3 billion a year in federal income tax revenue. Actually—and this certainly is one of the commendable aspects of the bill—the reductions can be had *without* net revenue loss and probably with some *net gain*, if there is a continuance of the recent historic average of national economic growth.

For example, under existing tax rates, net budget revenues of the federal government increased more than \$11 billion in the two fiscal years ending last June 30th. Some of this increase came from inflation which we hope will not be a factor hereafter, but even under normal economic growth, the annual increase should be in the order of \$4 billion—or enough to absorb the proposed schedule of rate reductions, with a billion dollars left over.

Certainly, it is reasonable to expect that the bill itself—principally by unleashing appreciably large new sums of investment funds—will have such a salutary effect on national well-being as to insure a rate of economic growth to provide a revenue surplus.

Now we come to the feature of the measure that, in my opinion, stamps it as one of the most realistic taxation bills ever proposed. It has built-in safeguards against deficit spending by the federal government.

Should essential needs arise for spending above the total of anticipated revenue, the President and the Congress have the power to postpone the application of the rate reductions for up to one year. This provision makes it possible to deal with

any emergency that may develop due to defense requirements or other considerations and, at the same time, retain on the legislative books a constructive and basic income tax rate reform law.

THE postponement provision will perform another extremely important function. It will make the administration more directly responsible to the taxpayers in all budget matters. Certainly, there will be far less inclination among governmental agencies to indulge in expenditures for unjustified programs if the financing cannot be arranged without bringing about a delay in tax rate reductions. The taxpayers who take a dim view of such use of public funds will be able to direct their protests at the agency responsible for depriving them—at the eleventh hour, so to speak—of their anticipated tax savings.

In accordance with the terms of the bill, therefore, the House Ways and Means Committee would adopt a related rôle in budget making, that of a jealous guardian of taxpayer rights and interests. It is my conviction that this rôle can best be performed by the forward scheduling of tax reductions. Only in this way can there be equal competition as against the forward commitments for federal spending.

In so far as the inflationary pressures resulting from the present tax system are concerned I am indebted to my colleague, Representative Herlong, for his searching analysis of this phase of the problem confronting the economy.

"Excessive use of bank credit is the engine of inflation," Representative Herlong said after completing his study, "but, under present circumstances, this engine is fueled by the arbitrary restriction on

## PUBLIC UTILITIES FORTNIGHTLY

savings imposed by the unfair and unsound tax rates."

IN support of his contention, Representative Herlong listed four principal factors, as follows:

1. Inadequate savings inevitably result in excessive reliance on bank credit which, when used in substitution for new capital out of current savings, can only insure a continuing inflationary tendency as the cost of economic growth.

2. If, with inadequate savings, restrictions on new bank credit hold down the inflationary thrust and hence slow up our rate of growth, then the chief sufferers are those of our citizens, now in the lower income brackets, who stand to gain the most from greater production, more and better jobs, and hence increase in living standards.

3. Inadequate savings are a particular barrier to the development and expansion of business, and make it most difficult for small business to finance its operations and expansion.

4. Limitation on the formation of capital out of current income is especially harmful to sections of the country which are the least developed industrially.

I concur wholeheartedly in Representa-

tive Herlong's conclusions. I do not see how we can continue to dodge the issue of vitally needed income tax rate reform. It is already late—very late. We must put through, without further delay, an orderly plan for reducing the rates that discourage and penalize individual effort, prohibit adequate savings, and threaten the industrial vitality and supremacy of our nation.

I SINCERELY believe that my bill provides a focal point for the expression of taxpayer interest in using revenue growth to reduce excessive income tax rates instead of to support increased government spending. I feel certain that many taxpayers, both individually and through various groups to which they belong, will want to express their views on this legislation to their own representatives in Congress as well as to the House Ways and Means Committee, which is to consider HR 6452 and other proposals for income tax legislation. I know of no more important public service for any American than to support a measure that assures such great benefit to our country.

The table along the left-hand column of page 14 illustrates the savings for a typical taxpayer (single or married, filing a separate return) after deduction and exemptions, if HR 6452 were adopted.

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**"IF** private utilities or any other private enterprises get out of line, the law can move to correct matters—and it has done that time and time again. We can and do take care of private monopolies—either by forbidding them altogether or regulating them where local, limited monopolies are necessary to good and economical public service. But a political monopoly—such as the socialized power groups want—is beyond effective control. It feeds and fattens—at the expense of the liberties of the people, as well as of their pocketbooks."

—EDITORIAL STATEMENT,  
*Industrial News Review.*

# A Pioneering Electric Utility

This is an interesting story by a veteran Hartford, Connecticut, newspaperman, still young in years. It deals with the Hartford Electric Light Company and the development of electric lights.

By THOMAS E. J. KEENA\*

IT was a period of great technological change. A new source of energy was within the reach of the American people—if they could harness it. There were problems—electric officials were conferring with hostile political circles about insurance matters.

Nineteen hundred and fifty-eight? No, this was in the early days of the Hartford Electric Light Company, one of the pioneers in the industry. It was a day when every decision was new, in 1881 and thereafter, when Edison's development of the practical incandescent lamp was still a novelty.

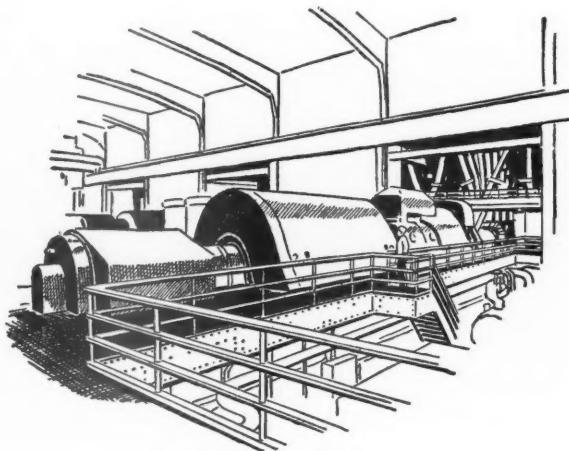
Today the company stands as a successful utility, serving an ever-increasing num-

ber of customers, meeting an ever-increasing demand. But it still looks gratefully back to the inspirational and aggressive zeal of the small band who founded the company slightly more than seventy-five years ago.

In 1956, on the anniversary of the day the Connecticut general assembly granted a charter to the company, Austin D. Barney, chairman of the board, authorized a short history of those first years to be published. It contains a striking number of firsts that this company has achieved.

But the casual, soft-spoken New Englander is likely to brush aside the firsts, as such. "It was a new industry," he remarks. "If you tried anything, and it worked, it was a first."

\*For personal note, see "Pages with the Editors."



## PUBLIC UTILITIES FORTNIGHTLY

**W**HAT he marvels at was the progressive spirit of the founders, in particular his grandfather, Austin C. Dunham. It was A. C. and the others in that small band who set the pace of inventive, experimental drive that the company's later presidents, including Mr. Barney, have carried on.

"A. C. always wanted to try something new," Mr. Barney says with a smile. "Everyone was predicting that the company would go broke. He had great vision, great enthusiasm. He wasn't an engineer, but he had the imagination to see how the company should grow."

The company is in the midst today of compiling a formal history. Two men familiar with the company's past have been assigned to collect what records and information they can, including the tape-recorded memories of some of Hartford's older living residents.

One of the things that the history is bound to show is, in Mr. Barney's words, that "the important thing in any company is the outlook of management. The company was particularly blessed with A. C. He had that type of inquiring mind. Then Samuel Ferguson came along and continued the tradition."

Austin C. Dunham was a versatile young man with a background in the woolen textile manufacture and merchandising business when he moved into the electric field. Like a number of other leading Connecticut citizens, he came from an area described generally as "east of the river," the rural and small industrial centers of eastern Connecticut.

**W**HEN Mr. Dunham, Morgan G. Bulkeley, and Samuel C. Dunham, president of the Travelers Insurance Com-

pany, participated in the founding of the Hartford Electric Light Company, there was already a company providing some service in the city. It was in a precarious position, however, and it relinquished its assets—principally a contract for some arc lighting on the Sir Humphrey Davy principle and a few tubular boilers—to the new company.

The arc lights had been sold at what, to Mr. Dunham, seemed an exorbitant price. Commercial customers who wanted to enhance their sales prospects in the Christmas season, ordered them installed, the total reaching about 100 in the downtown area.

Frugally, they returned them in other times of the year, so there would be less than half that number in use in the summer.

**C**HARACTERISTICALLY, as Mr. Barney observes, Mr. Dunham thought this was wasteful. He reasoned that to sell all you can, you should make the price as cheap as you can, then sell more so that you can make the price cheaper.

"It was a modern concept for those times," Mr. Barney recalls.

Mr. Dunham acted on it. He cut the price of arc lamps until the customers no longer thought it was worth while to reduce their use. The customers approved highly; others in the industry did not.

"I am aware that you have little knowledge of electric lighting and no experience," angrily wrote the president of another company to Mr. Dunham. "But I wish to say to you that if you persist in the sale of light at the prices you now use, you will soon learn that you will not only ruin your own company, but the rest of us as well."

## A PIONEERING ELECTRIC UTILITY

MR. DUNHAM moved aggressively to promote the use of lights. He staged a public exhibition of electric lighting at the city's railroad depot on April 7, 1883. It drew favorable comment. Out of it came a number of buyers—the company's first contracts, at \$200 a year, included a saloon, a bakery, drugstores, a hotel, a carriage factory, an armory, and the railroad station.

What other ways could be found to sell this new form of lighting? It was a standing joke in Hartford in those days that passers-by on Pearl street would remark of the company's offices: "There sits Mr. Dunham, dreaming."

One dream involved showing the city that electric lights were practical for street illumination. The board of aldermen was hostile and it took some persuading. But eventually the city agreed to an experiment over a mile of downtown streets. Each arc lamp would replace six gas lights.

The demonstration, despite a gap where gas lamp distribution had been different, showed a convincing contrast in efficiency. Nevertheless, there was still a wrangle, as the city began paying about \$16,000 a year for electricity. Six years later, by 1890, the contract was up to

\$40,000 a year, and Hartford was regarded as the best-lighted city in the East.

THE growing use of electricity caused other problems. Shortly after the public demonstration in 1883, and the rush of contracts thereafter, *The Hartford Courant* reported that "Officials of the light company met with the local board of underwriters on the question of insurance in buildings using electric lights."

Not all experiments worked out well. On July 23, 1890, one of the first night baseball games in the country was played in Hartford. It sounded like a good idea; the electric officials assured everyone it was feasible, and *The Courant* theorized:

The novelty of a game of baseball by electric light will attract all the lovers of the game, as well as many who seldom see it by sunlight. Business frequently keeps away hundreds during the day, who will be only too glad to take the opportunity to see a game after the business of the day is done.

The promoters took no chances. A regular game was played in the afternoon, and as an extra added attraction at night—ah, there, Larry MacPhail—several cornet solos were scheduled.



**I** "It was a period of great technological change. A new source of energy was within the reach of the American people—if they could harness it. There were problems—electric officials were conferring with hostile political circles about insurance matters. Nineteen hundred and fifty-eight? No, this was in the early days of the Hartford Electric Light Company, one of the pioneers in the industry. It was a day when every decision was new, in 1881 and thereafter, when Edison's development of the practical incandescent lamp was still a novelty."



## PUBLIC UTILITIES FORTNIGHTLY

The game drew well, all right, over 2,000. But *The Courant* and the fans were disenchanted. *The Courant* headlined its account: "Playing in the Dark: This Game of Ball Was Out of Sight."

"If intended as a burlesque," said the reporter who covered the game, "it was a great success. Viewed in any other light, it was a dismal failure."

Few technical details were carried in the account. All that was said was: "High poles were placed around the field, it was poorly lighted, and a large ball was put in." Not even a Hartford victory appeased the crowd.

MEANWHILE, the company was racing to keep up with technical developments. It looked into all reports of advances, permitted manufacturers to make experimental installations, and moved swiftly to find better and cheaper ways to provide service.

"The entire machinery of the Hartford Electric Light Company used for the development of electric current, if we except the hydraulic machinery, changed entirely five times in twenty-five years," Mr. Dunham later reported.

Among the firsts recorded by the company:

The first transmission (1893) of three-phase alternating current at high voltage (4,000 volts) for any considerable distance (11 miles) from a hydroelectric plant on the Farmington river. The hydro plant was the first in the East.

The first storage battery used to hold hydro power for heavy lighting loads (1896).

The cooling of transformer oil by circulating it through pipes in the river (1896).

The first placement underground of all wires in the central business district of a city (1896).

First use of steam turbines to drive generators (1901).

First use of aluminum as conductors in transmission lines (1899).

First commercial power generation by mercury boiler producing 10,000 kilowatts (1928).

A KEY figure in these technical developments was Professor William Lisenard Robb. In 1892, Dunham, aware of his own nontechnical background, asked Robb, who was a professor of electrical engineering at Trinity College in Hartford, to be a consultant on advances in the industry.

The relationship with the Hartford Company continued until Dr. Robb's death in 1933, when he was dean of engineering at Rensselaer Polytechnic Institute. One of his earliest contributions was a study of European hydro stations and advice on the development of the Rainbow plant of the Hartford Company on the Farmington river.

The Rainbow plant has contributed its share to the history of the company. An anecdote reported as legend by the historians today, but related by Mr. Dunham himself in one account, concerned a visit by C. P. Steinmetz.

Steinmetz was only one of General Electric's people who paid visits to the Hartford installations, where so many novelties were on trial. "He went to Rainbow to test the power with the crude methods then known; namely, by the use of an iron wire running into the raceway and thence into the powerhouse, which he inadvertently trifled with, and had what



### The Ferguson Tradition

**"MR** FERGUSON, who became president in 1924, had an intense belief in public relations. He believed that 'Good service without good will cannot mean success, although with good will firmly established, there may at times occur shocking lapses without any particular damage.' He appeared to speak for his company whenever anyone was called. He listened sympathetically to customers. He urged upon others in the industry policies he was convinced would help them all. A pretty good economist, aware of social responsibility and philosophy, he carried on the ideas of A. C. Dunham directed toward selling more and more at lower prices."

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seemed to us a most miraculous escape," ran Mr. Dunham's account.

Assisted to his carriage, he left Hartford never to return, the company's history dryly notes.

**T**HE use of electricity for lighting only annoyed Mr. Dunham. He reasoned that industry, too, should be using this energy, and would be a better market. At the same time, unless he could dispose of the daylight production of hydro power,

it was only a waste by-product. Therefore, he decided, he could afford to sell it cheaply.

Offering a low industrial rate—and again alarming his competitors—Mr. Dunham approached the Billings & Spencer Company in Hartford in 1900 to work out a contract to substitute electricity for their steam power with belting. It took talking, but by 1902, the arrangement was firm.

The contract specified that Billings &

## PUBLIC UTILITIES FORTNIGHTLY

Spencer could not possibly lose, by contrast with what their own steam generation would cost them. It worked into a plan whereby the two companies set a price based on metering, with the rate going down as use went up.

"That contract was a startling innovation in the industry," observes Mr. Barney, "but it is an example of the way A. C. was promoting use of the energy."

Another example is the Dunham electric range. Mr. Dunham was convinced that more homes should use electric power for cooking and other duties. Finding no such animal, he designed one himself in 1908.

"It carried out the concept of the all-electric home that he had had as early as the 1890's," Mr. Barney remarks. It had, however, drawbacks. Although it included a broiler, cooker, and roaster, and sold for \$40, the range weighed about 1,000 pounds.

It used two General Electric 500-watt cartridges to heat the left burner, one to heat the right burner, and four in the oven. Three heats were provided. Two-foot candle power pilot lamps were used so that when any part of the range was operating, they were lighted. The range operated on 110-volt circuits, either alternating or direct.

**I**F the range sounds like an oddity, the cost of living was more so. Tests made in 1908 to calculate promotional information showed that a corned beef and cabbage dinner for eight cost 24.1 cents—including potatoes, carrots, parsnips, turnips, two large loaves of bread, two fruit puddings, two apple pies, four dozen biscuits, and one dozen raised biscuits.

Before the range—patents for which

were turned over to General Electric—was completed, Mr. Dunham had an employee try cooking with light bulbs. A bean pot was placed in a paper pail, insulated with fiber glass and other materials, and a light bulb inserted through an insulated cover.

By 1912, Mr. Dunham was ready to step down. He was not looking for a rest, however. It's a family tradition, recalls Mr. Barney, that the pioneer of the industry was interested in learning to fly in 1914. Meanwhile, he had been saluted by a grateful board of directors as one who had found electricity a luxury and left it a necessity.

In his last year with the company, he had taken the step of inviting a young engineer of Connecticut background to return to the company. The engineer had served briefly as a lineman while he was attending Trinity College. In the intervening years, he had compiled an interesting record in research at the General Electric Schenectady laboratory.

**S**AMUEL FERGUSON rejoined the company in 1912 as a vice president. As Sam G. Dunham, the founder's brother, took over the president's duties, Mr. Ferguson busied himself with new accounting systems, plant surveys, and rate schedules to meet the requirements of the newly organized state public utilities commission.

As a result of these studies, he worked out the first truly promotional residential rate. He was trying to promote the use of appliances for cooking and heating that had been developed. But the processes were so expensive that the new appliances were a luxury, and separate meters were no help.

## A PIONEERING ELECTRIC UTILITY

In January, 1922, the company established a rate system based on a flat charge depending on the floor area of a home, and a kilowatt-hour charge for energy consumed. In that way, it eliminated separate meters and much special wiring. It opened the way to reduced rates for additional consumption. By 1926, average residential rates were going down all over the country.

"Sam Ferguson, like A. C., was a man of vision and courage," recalls Mr. Barney, who was with the company during much of Mr. Ferguson's tenure. It was Mr. Ferguson who took the decision in 1921 to build the new South Meadow plant, with the first unit having a 20,000-kilowatt capacity.

"That was quite a jump. It was as big if not bigger, than putting in a 100,000-kilowatt unit today. For that time, it was a great venture. At the same time, he was doing things without overextending the company's capital position. He believed, as A. C. had, that the customer, the employee, and the stockholder each was entitled to share in the advances of the company. Neither of them fussed about dollars much. As a result, the company's always been in the black."

**M**R. FERGUSON, who became president in 1924, had an intense belief in public relations. He believed that "Good service without good will cannot mean success, although with good will firmly established, there may at times occur shocking lapses without any particular damage."

He appeared to speak for his company whenever anyone was called. He listened sympathetically to customers. He urged upon others in the industry policies he

was convinced would help them all.

A pretty good economist, aware of social responsibility and philosophy, he carried on the ideas of A. C. Dunham directed toward selling more and more at lower prices. At the same time, he investigated techniques of improving service. One idea he pushed was the Connecticut Valley Power Exchange.

This was not a new concept. But the completion in 1925 of interconnection between the power systems of Hartford and Springfield and Turner Falls, Massachusetts, was a radical improvement. It meant tying in the water-power generation of Western Massachusetts Electric with the Hartford system to insure greater reliability and produce savings in efficient power pooling. In World War II, men trained in the system took its lessons far afield.

In 1933, the Hartford Electric Light Company won the Coffin Award under his leadership. In that year, the company had reduced rates, improved service, maintained its force of employees without pay cuts, paid its regular dividend as it has every year since 1894, offered credit to hard-pressed customers, and was providing a year's trial in homes of electric ranges at a weekly rental of 30 cents.

**M**R. FERGUSON was succeeded in 1946 as president by the man who had been general counsel of the company since 1928. Mr. Barney had been active in civic, welfare, and other activities. He had served two terms in the state senate, has put in long service as president of the Connecticut Public Welfare Council, and most recently has been interested in water conservation in the Connecticut river basin.

## PUBLIC UTILITIES FORTNIGHTLY

He compares the electric industry today in part with those interests. "I swear, we're just as vital today as drinking water," he remarks. "Maybe as food supply. The phenomenal growth of the business has been more than anyone dreamed of. It gives you the horrors sometimes, when an ice storm hits, for instance."

In an industry that he feels has now reached maturity, continuity of service is a major item in Mr. Barney's creed. But he does not lack the inquiring spirit of his predecessors. He has pursued prospects of technical and economic improvements.

Atomic energy, of course, is preparing a revolution. The Hartford Electric Light Company was one of the first companies at the end of World War II to join a study group to see how its benefits might be brought to the customer. It is a participant in the construction of the Yankee Atomic Electric plant at Rowe, Massachusetts, as is its sister, the Connecticut Power Company, of which Mr. Barney is now president.

As chairman of the board of the Hartford Company, Mr. Barney also took an active interest in promoting closer co-operation among Connecticut companies. As a result, in 1954, four Connecticut utilities, including both Hartford and Connecticut Power, signed a declaration of policy to co-ordinate plans for the installation of new generating capacity.

"That was a new concept," Mr. Barney concedes, "treating the installation of new generating capacity on the basis of what the entire state needs. It permits bigger units to be installed, with each company taking a piece of one until the installing

company needs it all. We think it's a unique arrangement."

The Connecticut Valley Power Exchange is being strengthened, too. Mr. Barney, firmly convinced that the trend to co-operation in the industry is healthy, thinks that interconnection must be adapted to more centralized control and dispatching.

Nationally, Mr. Barney is one of the most vigorous proponents of an awareness to political challenge. Speaking as president of the Association of Edison Illuminating Companies in 1956, he warned fellow utility executives:

We are completely organized in all respects to meet the technological and economic problems of the industry. We need have no fear of such problems so long as we maintain our efforts in those directions. Today the principal threat to the welfare of our industry—a threat as well to our entire system of free enterprise, the free society, and the individual—is the changing political philosophy of the last half-century.

BUT Mr. Barney is no gloom spreader. He has pride in the accomplishments of the industry and of his own company. He looks back to the vigor and aggressiveness of the founders for inspiration. His directors' room at the new Connecticut Power Company offices in Wethersfield is lined with sleek Korina plywood, has an elliptical conference table of selected walnut on three pedestals that reflects the best of contemporary design, is equipped with quiet decorations and conveniences. But it also has, at one end, a solid and substantial fireplace.

"I had them put that in," he remarks.



# OUT OF THE MAILBAG



## Approves Vogel's Article

**I**N your June 7, 1956, issue, you published an article "The Sale of Off-peak Power," by Mr. Orrin S. Vogel, director of economic research, Florida Power Corporation.

To me, the importance of Mr. Vogel's 1956 article was the inference that *it is not only the privilege but the duty of management*, to sell as much of its reserve capability as is possible—for service to off-peak power, meaning loads that can be completely interrupted at the will of the company. This lengthening of hours' use of the production and distribution capabilities markedly increases the "investment efficiency" of the utility operation.

As you know, the index of "investment efficiency" is "kilowatt-hours per year delivered to the franchise territory per dollar of plant investment" and was originated by Mr. Charles Coffin in 1925 for use in a series of addresses to the leaders of our industry under the title "Improve Your Investment Efficiency to a Parity with Your Engineering Efficiency."

The genesis of the accomplishments to date of the Florida Power Corporation dates back to 1941 when it was the privilege of our firm to collaborate with former President Higgins in the development of a long-range plan for improvement in "investment efficiency." . . .

By January 1, 1956, the interruptible phosphate mining load had grown to 40,500 kilowatts, the controllable water-heating load had reached the highly gratifying saturation of nearly 50 per cent (amounting to 60 to 70,000 kilowatts), the off-peak furnace load had grown to 30,000 kilowatts (with 80 per cent to 100 per cent additions thereto under negotiation), and several hundred highly profitable controllable electric space-heating loads had been obtained.

On January 1, 1956, the total capability of the 13 steam, hydro, and internal combustion plants of the Florida Power Corpora-

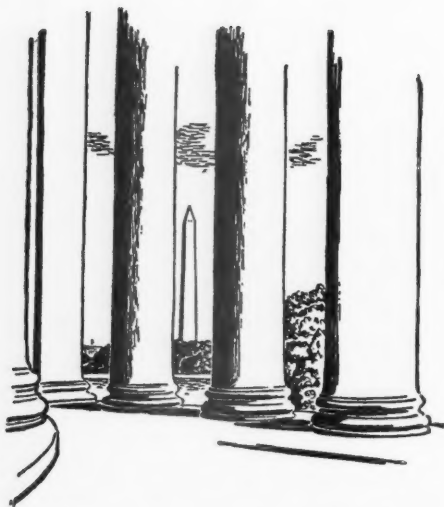
tion amounted to 468,713 kilowatts with which, including the controllable demands of their off-peak phosphate mine and chemical loads, they supplied a summation of class demands totaling 462,000 kilowatts. This indicates the provisional commitment of practically 100 per cent of their reserve capability which latter is designed to average about 18 per cent or—80,000-90,000 kilowatts, the approximate sum of the maximum interruptible demands of *only* the phosphate mine and chemical plant loads.

The end result of the foregoing was that the "investment efficiency" of the company stood at 14.7, which is higher than that of any other utility we know of, with comparable '46-'56 plant growth and—more importantly—is probably 25-30 per cent higher than this all-important index would have been if the foresight of former President Higgins had not been so successfully carried forward by his successors.

I have deliberately awaited making comment on Mr. Vogel's article until it had become evident that—at the industry level—the investment efficiency of our electric utilities had reached its peak in the 1932-195x ascending half of the current economic cycle.

Whether the growth of kilowatt-hour sales, which the past decade has so generously given our utility industry, is now leveling off, as indicated by the lowering rates of increase in residential and industrial sales—'57 over '56, we do not know. . . . The present index trends can only result in a lowering of the industry's "investment efficiency." Reversal of these trends can best be accomplished by management heeding Mr. Vogel's remarks and translating them into aggressive action on a carefully co-ordinated plan of rate, area development, and sales policies—based upon and guided by competent economic research.

—WILLIAM S. LEFFLER,  
Engineers Associated,  
Darien, Connecticut.



## Washington and the Utilities

### *New Type Atom Plant*

THE Atomic Energy Commission has announced it has received a proposal from a team of industrial firms for construction of an atomic power plant that would be the first of its type in the United States. The proposal was made by the Pennsylvania Power & Light Company and the Westinghouse Electric Corporation. Actual construction of such a plant would be contingent on whether research and development on the project, during the next two years, indicate that a go-ahead is justified.

The plant, if built, would have a generating capacity of from 70,000 to 150,000 electrical kilowatts, and a capital cost of approximately \$57 million. It would be a so-called "homogeneous" type of reactor, meaning that fuel and coolant material are mixed together homogeneously. And it would operate on a so-called "thorium-uranium cycle," meaning that both thorium and uranium would be used as fuels.

"This is the only nuclear power project in the United States dealing with a single-region slurry reactor system based on the thorium-uranium cycle," said AEC. Under their proposal, the companies ask

AEC for \$7.3 million to finance research and development during 1958-59, after which a decision would be reached whether to go ahead with construction. They ask additional amounts not to exceed \$18 million for research during any actual construction and during the first five years of operation.

### *Economy Ax Feared*

CUTBACKS expected in 1958 have been protested in advance by the National Rivers and Harbors Congress. Senator Neuberger (Democrat, Oregon) has supported this position. Protests have been lodged with President Eisenhower and Vice President Nixon anticipating slashes in the budget affecting Army Engineers' projects, particularly rivers and harbors fund requests. The Rivers and Harbors Congress is headed by members of Congress from both parties. Its president is Representative Brooks (Democrat, Louisiana).

There are already reports of a "no new starts" policy in connection with the budget for fiscal 1959. Army river projects, according to the report, may be

## WASHINGTON AND THE UTILITIES

slashed by some 20 per cent. In its letter, the Rivers and Harbors Congress declared: "We feel that the U. S. did not lag behind Russia in launching missiles and satellites because it was appropriating funds for a reasonable program of water resources development. We also feel that we shall not hasten the launching of American . . . missiles by abruptly halting or crippling our public works program." The Rivers and Harbors Congress suggested that if cuts must be made they may be made in "less essential areas of the budget." It suggested that domestic resource development be given priority. The Budget Message will go to Congress in about a month's time.

Senator Neuberger cited past rapid tax amortizations as a support for power and water resource development. He said:

The administration has in the past recognized the significance of water-power projects for national strength by granting fast tax write-off privileges which have been defended precisely as emergency measures to induce a shift of national resources into such projects.

He questioned whether the administration could defend the position that industry could afford to build power projects such as John Day dam, but the government could not.

THE Interior and Agriculture departments are also likely targets for expected sharp reductions in nondefense spending for the next fiscal year, according to Washington rumor. Interior Secretary Seaton refused to comment on such reports because the Budget Bureau was still working on the budget to be presented to Congress this month. Seaton hinted, however, that his conference last month with Wyoming Governor Millard Simpson was for the purpose of discussing whether any new reclamation starts will

be allowed for fiscal 1959. Funds for Flaming Gorge dam, part of the Upper Colorado reclamation project, are reported to have been omitted from the new budget.

As far as the Rural Electrification Administration is concerned, the economy cut may take the form of reduced lending authority, rather than any change in interest rates on loans. For more than a year the administration has been critical of the low interest rate (2 per cent) on REA's long-term loans for both rural electrification and rural telephone operations. Two bills on the subject have appeared in Congress but the political popularity of REA is such that chances of this legislation are not bright.

And so, despite the fact that REA is lending money at a cheaper rate than the government itself can borrow it, no early change in the 2 per cent rate is expected. Instead, it is believed that the government might save more money immediately for this nondefense operation if the size of the appropriation for new lending authority in both the rural electrification and rural telephone fields is reduced. This would enable Congress to divert funds to defense spending in the coming fiscal year.

How much of a cut REA will take in its new budget is still in the process of settlement at the White House level. Whether Congress will go along with such cuts is another question mark. In the past the House has repeatedly increased the administration's budget request for REA budget funds.

### *Memphis Case Upheaval*

A REVIVAL of determination to seek changes in the Natural Gas Act at the next session of Congress seemed to be the reaction of natural gas pipeline and producing interests in the recent decision

## PUBLIC UTILITIES FORTNIGHTLY

of the U. S. circuit court of appeals for the District of Columbia in the Memphis case. In this decision the court has ruled that after nineteen years the Federal Power Commission has wrongfully been construing that part, § 4(d), of the act which authorizes the filing of increased rates.

The court now holds that unless a pipeline company, serving distributors under contract, has fully negotiated consent agreement with all of its customers to a rate increase it may not file under § 4(d), but must proceed under the slower and more uncertain method of obtaining a complete FPC review of a proposed rate increase under § 5. Meanwhile, the pipeline is deprived of the relief of obtaining an effective rate increase under bond after five months of a suspended increase.

Pipeline interests rather than distributors are most provoked at the Memphis decision. But there is uneasiness throughout the gas industry because of the confusion and upheaval caused by the court's decision.

**T**HERE is at least a reasonable doubt that the U. S. Supreme Court will uphold the circuit court of appeals; at any rate, the FPC seems to think so. FPC Chairman Kuykendall announced that the commission had decided to petition for a review of the circuit court's decision. Kuykendall stressed the major importance of the decision because it requires such radical adjustment of the rate procedure over that which was thought to be provided by the Natural Gas Act and which has been in use for many years.

Chairman Kuykendall further stated that, in the commission's opinion, the effect of the decision will be adverse to consumers, because the financial stability of many pipeline companies may be impaired or destroyed, thus hampering or perhaps

terminating existing service and preventing continued and necessary expansion of the industry.

Meanwhile independent natural gas producers, with rate schedules on file with the FPC, will appear before the commission early this month to present basic evidence relating to natural gas rates in the various producing areas of the country. The decision to hold such hearings resulted from a 1955 investigation by the FPC of rates of independent producers selling gas to Tennessee Gas Transmission Company.

At the suggestion of the FPC staff, the producers involved agreed to brief and analyze all producer gas rate schedules on file with the FPC. The object was to make available to the commission evidence as to rates, charges, terms, and conditions under which natural gas is sold in the several producing areas. The information has now been compiled and will be presented at hearings which are scheduled to begin January 7th.

**A**LL such producers will be given opportunity to present their own analyses of rate schedule data and to present evidence relating to a theory or theories of rate fixing for sales of natural gas by independent producers. This will include evidence of a general economic or accounting nature, but not evidence applicable only to the cost of service or form and level of rates of any particular producer.

The producers involved in the proceedings are Champlin Oil & Refining Company, Fort Worth, Texas; Pan American Petroleum Corporation, Tulsa, Oklahoma; Continental Oil Company, Houston; Western Natural Gas Company, Houston; Sinclair Oil & Gas Company, Tulsa; and Tidewater Oil Company, Houston.

# Telephone and Telegraph



## *REA Advisory Group Meets*

THE telephone advisory committee of the Rural Electrification Administration met for a two-day session in Washington, D. C., early last month. It was the second meeting of the advisory group, which was set up to consult with REA officials on problems affecting rural telephone borrowers.

The committee expressed general satisfaction with present REA policies, although some possible changes were discussed. The group did not go into the matter of a change in interest rates on REA loans, but confined its discussions to operating problems.

Competitive bidding on station operating equipment, now required by REA, was the subject of much debate at the two-day conference. REA Administrator Hamil admitted that there was something to be said for the point of view that borrowers be permitted to accept a negotiated bid if they choose. Whichever method is used, REA's final approval would still be necessary.

A final agreement on this subject remains to be worked out.

The committee's suggestion that REA and borrowers encourage the consolidation of small telephone properties met with no opposition. The problem of the small

uneconomic unit has been with REA since the inception of its telephone loan program.

Other topics discussed at the conference included the question of refinancing and the encouragement of seminars and college courses on telephony. The committee approves REA's present policy of refinancing only where security is provided by a first mortgage. The group recommended that REA review ratio requirements in the mortgages which may be affected by the Federal Communications Commission's recent revisions in station accounting procedures.

Latest statistics on REA's telephone program reveal that as of the end of October, 1957, there were 205 co-operative and 363 commercial borrowers. Since June 30, 1956, only nine co-op borrowers have been added; by contrast, since the same date, there have been 93 new commercial company borrowers.

## *Excise Taxes*

A SPECIAL federal-state committee recommended last month that the states take over part of the federal telephone excise tax as the first step in a long-range plan to split up central government programs and revenues. In exchange for this



## PUBLIC UTILITIES FORTNIGHTLY

source of income, the states would take over federal programs for vocational training in agriculture, home economics, trades and industry, distributive occupations, and fisheries.

The proposal was outlined in a report by a 16-member committee of federal officials and state governors, created last summer after President Eisenhower's suggestion at the Governors Conference that the states should assume more responsibility for programs dealing with local problems. Under the plan, the 10 per cent federal tax on local telephone service would be cut to 6 per cent and the states would impose a 4 per cent levy of their own. This would cut federal revenues by \$148 million annually and make the money available to the states. The 10 per cent federal tax on long-distance calls, which nets the government \$280 million annually, would not be affected.

**T**HE report of the committee was delivered to the President and to Governor William G. Stratton of Illinois, chairman of the Governors Conference. Although administration spokesmen have indicated the proposals are being studied, events subsequent to last summer's Governors Conference may delay any serious attempt to put them into effect. At the time the President made his suggestion, there were indications of a federal budget surplus and talk of a tax cut. The anticipated increase in funds for national defense next year is likely to make the federal government less willing to give up some of its revenue sources.

There was apparently no thought on the committee of abolishing the tax on telephone service altogether. Both the Bell system and the independent telephone industry maintain that repeal of the tax, enacted as a wartime measure, is long overdue.

JANUARY 2, 1958

## *Telegraph Roundup*

**W**ESTERN UNION reports that it expects its 1957 revenues will exceed the record set in 1956 when the quarter-billion dollar mark was passed. The company's revenues have increased more than \$80 million since Walter P. Marshall became president nine years ago.

Revenues from telegraph money order services in 1957 exceeded \$18 million, the largest in Western Union's history, according to the company's year-end review. More than \$600 million was transferred through this service during the year.

One of the major developments in the company's recent history has been the growth of leasing private wire telegraph systems to industry and government. Last year the revenues from such service reached an annual rate of \$38 million, another all-time high. Sparked by increasing use of such systems for integrated data processing (IDP) and management control purposes, many new private wire systems were installed and others expanded. Among the large IDP systems engineered by Western Union in 1957 were those for Liberty Mutual Insurance Company, Reynolds & Company, Boeing Airplane Company, and Clark Equipment Company.

Other private wire systems put into service during the year included those for Blue Cross Hospital Service Plans; Merrill Lynch, Pierce, Fenner & Beane; Firestone Tire & Rubber Company; North American Van Lines, Inc.; National Distillers Products Company; The Carpenter Steel Company; Railway Express Agency, Inc.; Trans American Freight Lines, Inc.; Moore Business Forms, Inc.; Pacific Intermountain Express Company; Convair division, General Dynamics Corporation; California Highway Patrol; and United Press.

## TELEPHONE AND TELEGRAPH

Applying the latest technique to its own operations for management control purposes, Western Union inaugurated a nation-wide integrated data processing system in 1957. It uses the regular public message network for the automatic, high-speed transmission of its own payrolls, equipment inventories, and other statistical information from every major city. After they are processed through business machines, the data are flashed by wire to field and management officials, making possible better operating efficiency and more effective management controls.

**W**ESTERN UNION extended its radio beam network westward to Chicago in 1957. The network links New York, Philadelphia, Washington, Pittsburgh, and the extensions to Cincinnati and Chicago will be in operation early this year. This will provide immediately about 1,000 additional telegraph channels for leasing to industry and government. Tower sites are being acquired for microwave radio routes to Indianapolis, St. Louis, and Kansas City, as well as Cleveland, Toledo, and Detroit.

Desk-Fax, the compact facsimile telegraph machine, with which businessmen can send and receive their telegrams instantaneously by merely pressing a button, was installed in the offices of additional thousands of companies, with 33,000 to be so equipped at an early date. Since another 22,000 companies are equipped with teleprinter (printing telegraph) machines, about 55,000 companies have direct wire connections with central telegraph offices, providing increased speed and efficiency in sending and receiving telegrams.

Closed circuit facsimile systems, called Intrafax, were leased to additional business, government, and military users to send intraorganizational communications

in "picture" form. This service, only four years old, is now producing leased revenues at an annual rate of more than \$1 million.

The number of Western Union share owners has increased more than 65 per cent since the 4-for-1 stock split on May 17, 1955. The quarterly dividend was raised from 25 to 30 cents a share, effective July 15, 1957, the third increase since 1950.



### *Employee Stock Purchases*

**T**HE executive board of the AFL-CIO Communications Workers of America has approved in principle the practice of stock purchases by workers in the industries where they are employed. The board, meeting in Atlantic City last month, directed CWA President Joseph A. Beirne to study a proposed stock issue by the American Telephone and Telegraph Company amounting to some \$720 million in convertible debentures. The company's stockholders will act on the proposal this month.

About seven million shares of the proposed new stock issue would be offered to Bell system employees to purchase over a period of time. Beirne was directed to analyze the action to be taken by the company's stockholders at its mid-January meeting and to take whatever action he may deem necessary to follow through on the board's approval of employee stock purchases. In its discussion of the entire question of employee stock purchase plans, CWA's policy makers agreed that organized labor could serve as a further stabilizing force in the American economy through individual worker's ownership of shares in that part of the industry where he or she serves.



## Financial News and Comment

By OWEN ELY

### *New Form for "Statistical Report" Streamlined and Improved*

THE form of the annual statistical report compiled by most electric and gas utility companies for the Edison Electric Institute, American Gas Association, insurance companies, and security analysts is revised every five years. Such a revision was due in 1957 and it has now been virtually completed and approved. An immense amount of work by various subcommittees and committees went into its preparation, as has been the practice in the past. Analysts in Wall Street and in other large financial centers were invited to make suggestions for changes. Over 100 recommendations were submitted by 40 analysts representing leading banks, insurance companies, and other financial institutions. After a great deal of study and consultation between groups of analysts and representatives of the EEI and AGA, satisfactory compromises were worked out—for naturally not all of the suggestions could be accepted, and others had to be reduced to practicable form so as not to burden the utilities with unnecessary work. Some of the information in the older form was also deleted as no longer of interest.

Electric and gas utilities are entitled to compliments on their willingness to co-

operate (through their association representatives) with representatives of the financial community to the mutual advantage of all, in developing the new form of report.

It is another milestone toward the goal of "complete disclosure" of key facts relating to utility operations that started before 1929 when the "insurance company" form (the predecessor of the present report) was first developed co-operatively by the principal insurance companies and major electric and gas systems. The revised report also should aid the utility companies to improve their operating policies and techniques, by permitting detailed comparisons with other companies' data relating to operating efficiency, accounting practices, etc. By making the data

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## FINANCIAL NEWS AND COMMENT

promptly available to large institutional investors as well as to their advisers, the report will greatly aid the continuing reappraisal of utility securities—institutional buyers take a large proportion of new security offerings and without them the industry would probably be unable to finance its huge construction programs successfully.

Although quite a few people contributed many man-hours to this project, the major credit should go to Charles Tatham, chairman of the Analysts group; Dan Parson, chief statistician of AGA; Douglas Tonge, chairman of the committee and chief statistician of the American Gas & Electric System; and John Buchanan, also of that company.

**T**HIS observer has one last-minute suggestion. The various tables in the report have now been numbered for more convenient reference. A list of schedules, or better yet an index of all the statistical items similar to that in the EEI and AGA annual statistical publications, would be of considerable aid to all users of the report.

The following summary shows the principal changes which have been introduced in the portion of the report covering electric utilities. Those relating to gas statistics will be discussed in a later issue of this department.

For holding companies (or operating companies in more than one state), Schedule I now includes the approximate amount of revenues obtained from each state, the square miles of territory served at retail and wholesale, etc. In Schedule II, Utility Plant by Functional Accounts, construction expenditures will be projected for the "second year following," as well as for the "following year." Thirty-two plant items will be shown instead of 24 as at present. A footnote will give the value

of cushioned gas held in underground storage. Electric production plant will be split between conventional steam and nuclear steam.

In the supplementary Schedule III on Utility Plant and Reserves the allocation of "common" plant to electric, gas, etc., if available, is to be footnoted. In Schedule IV, Operating Expenses, the gas production item is now footnoted to show separately the amount spent in exploration and development of prospective gas-producing fields. In Schedule VI—Income Statement—footnotes will provide new details on rents and on charges for atomic energy research and development. Share earnings, based both on actual shares and average shares, will also be shown. Footnote K calls for revenues collected under bond or subject to refund, and also operating expenses subject to refund.

**F**OUR other new footnotes call for detailed data for electric, gas, and other divisions on the following: revenues and expenses subject to refund (this will be of special interest in connection with the recent Memphis decision affecting gas utilities); the estimated amounts to be claimed in the federal income tax return for normal depreciation, liberalized depreciation, accelerated amortization, and depletion. (Formerly, only total depreciation and accelerated amortization were shown.) The form also calls for details on deferred federal income taxes due to both liberalized depreciation and accelerated amortization.

The report now contains a more complete Balance Sheet with some 51 items and seven blank lines as compared with 43 items in the old form. Footnotes provide for the average number of shares, the number of stockholders, the accumulated amounts of deferred income taxes (both federal and state) for both liberal-

## PUBLIC UTILITIES FORTNIGHTLY

ized depreciation and accelerated amortization; the accelerated amortization of emergency facilities; and the unamortized amount for atomic energy research and development.

Schedule VIII, Source and Disposal of Energy, also provides new generating items for nuclear steam and gas turbines. An inset box provides for residential statistics on average annual kilowatt-hour use, average annual electric bill, and average revenue per kilowatt-hour.

Schedule XII, Generating Station Statistics, now omits data on capacity and year installed for "largest unit in station," but adds a new column for Btu per kilowatt-hour for each station—which was formerly shown in the old report only in the form of company averages for solid fuels, gas, oil, etc. (in another table).

**U**NDER Generating Statistics, the new Schedule XIII calls for both summer and winter peak data, and capability at time of peak (including firm and non-firm purchased capability). The names of any power pool or nuclear power development group with which the company is affiliated is requested. Schedule XIV calls for generating units retired, added, under construction, and date in service—in more detail than is currently shown in the old form, including cost per kilowatt-hour for units added or retired. (The old report did not give any detail on units retired.)

Schedule XVI, Fuel for Electric Generation, provides a new cost unit—cost per million Btu for each class of fuel con-

sumed. The table for fuel generation and efficiency provides somewhat more detail for types of generators.

Some new tables (to be furnished at the option of the reporting company) have been added, covering salaries, wages, and employee welfare expenses by division; average number of employees for each major department of the business; changes in communities served; taxes charged to operating revenue deductions, by departments; and analysis of industrial kilowatt-hour sales and revenues by industries served. The latter should prove particularly valuable. The tax table supplies complete detail for all kinds of taxes, even including social security, and provides details on liberalized depreciation and accelerated amortization. Many companies have been furnishing these data in the past on special request.

### *Private Construction to Drop 5 Per Cent in First Quarter of 1958; Utility Up 14 Per Cent*

**A** JOINT report on construction expenditures by private business in the U. S. was issued recently by the Commerce Department and the SEC. The data, seasonally adjusted at annual rates, may be summarized for the first quarters of 1956, 1957, and 1958 (billions of dollars) as indicated in table below.

The utility data seem to agree, in general, with the forecast contained in the EEI survey, also summarized in this de-

	1956	1957	% Inc.	Est. 1958	% Inc.
Durable Mfg. ....	\$ 6.6	\$ 8.1	23%	\$ 7.3	D10%
Nondurable Mfg. ....	6.9	8.0	16	7.7	D 4
Transportation ....	2.9	2.9	—	3.0	3
Utilities (Gas-Elec.) ....	4.6	5.7	24	6.5	14
Others (Incl. Communica- tions) ....	11.9	12.1	2	11.0	D 9
Totals .....	\$32.9	\$36.8	12%	\$35.5	D 4%



## FINANCIAL NEWS AND COMMENT

partment. The gas and electric utility companies are obviously leading the procession, with increased construction expenditures estimated at 14 per cent over last year, in the first quarter of 1958. In 1957 the increase of 24 per cent was also the largest gain, topping even durable goods manufacturing. Part of these increases are doubtless due to higher prices for labor and materials both in plant construction and in the manufacture of generators and all other equipment required in new construction. Also, the industry has to provide for the continuing gain in residential and commercial use of electricity even though industrial use may be temporarily lower. However, as pointed out in this department earlier, it would seem advisable for the utilities to restudy their construction programs for 1958-59 to see whether a little "stretch-out" policy might now be advisable.

### *Electric Utilities' Long-range Expansion Program Maintained*

**T**HE Edison Electric Institute, in its twenty-second semiannual electric

power survey, indicates that there has been no drastic change in the electric utilities' construction program as a result of the current deterioration of business activity. Total capability of electric power systems in the United States is expected to reach 131 million kilowatts at the end of this year, a gain of nearly 7 per cent over last year.

In another three years 40 million kilowatts more generating capacity is scheduled to be added, a further increase of over 30 per cent. If this program is completed, there will have been an average annual increase of 8.2 per cent in capability during the five years 1956-60, inclusive.

**T**HE projected increase in peak load will be practically as large for the three years—from 112 million to 141 million kilowatts—and the five-year average annual increase works out at 7.6 per cent. While the summer peak load is rapidly overhauling the winter load, the latter will continue to exceed the former by about 4 million kilowatts in 1960. The reserve of excess capacity over peak load, currently around 16.7 per cent, is expected to increase to 20.8 per cent next year, 22.5 per

### CALENDAR OF PROSPECTIVE NEW UTILITY ISSUES

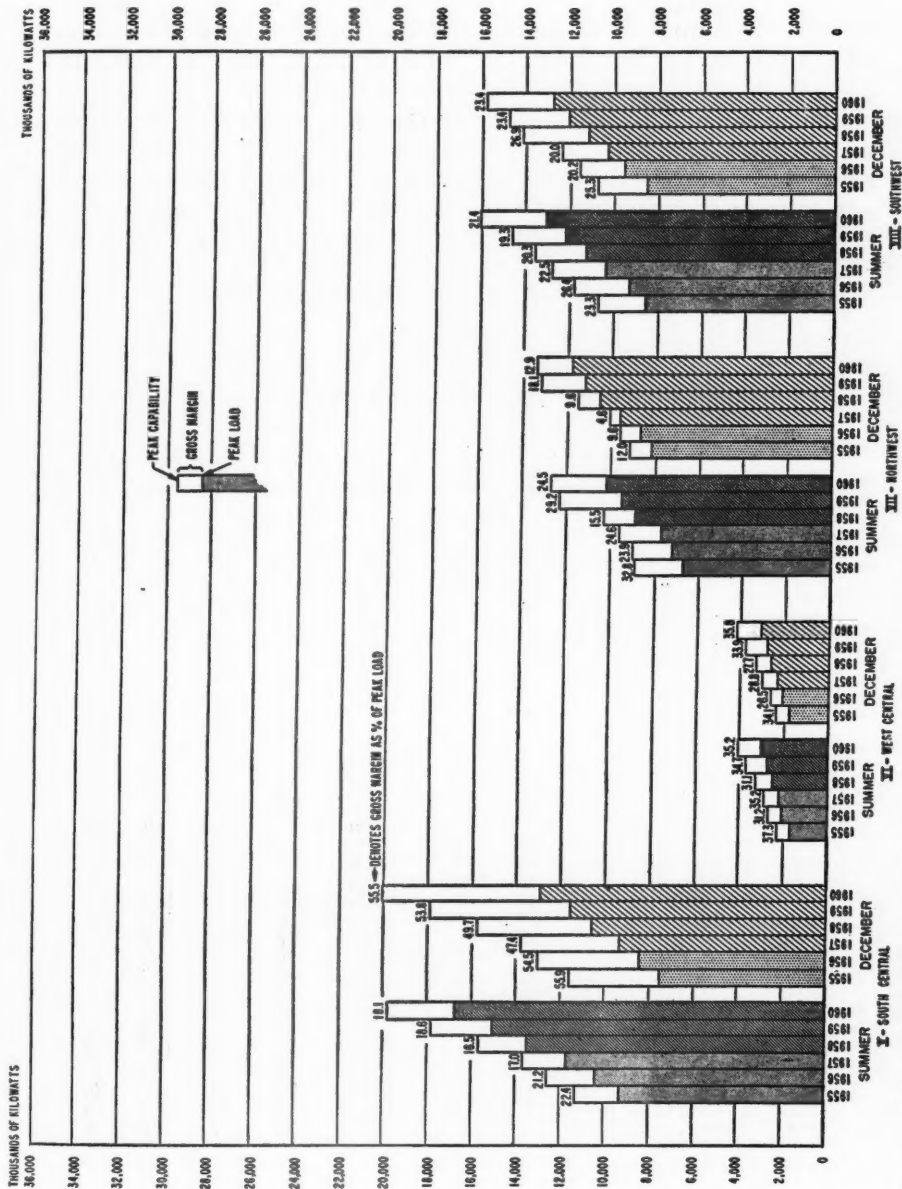
<i>Date of Bidding Or Sale</i>	<i>Amount</i>	
Jan. 9	\$30,000,000	Connecticut Light & Power 1st Mtge. Bonds 1988
Jan. 14	\$50,000,000	By Putnam & Co.—Chas. W. Scranton—Estabrook & Co.
Jan. 15	\$15,000,000	Commonwealth Edison S. F. Debs. 2008 (Competitive)
Jan. 15	100,000 shs.	Pacific Power & Light Bonds (Competitive)
Jan. 21	\$60,000,000	Pacific Power & Light Pfd. (Competitive)
Jan. 22	50,000 shs	Pacific Gas & Electric 1st Ref. Mtge. Bonds (Competitive)
Jan. 28	N. A.	Portland Gas & Coke Pfd. By Lehman Brothers
Jan. —	\$2,000,000	Gulf Power Bonds
Jan. —	\$30,000,000	Western Light & Telephone Bonds (Competitive)
Jan. —	\$5,000,000	Washington Water Power Bonds (Negotiated)
Jan. —	\$4,500,000	Chicago District Pipe Line Bonds (Negotiated)
Feb. 7	\$720,000,000	Cambridge Electric Light Bonds (Competitive)
Feb. 13	\$25,000,000	American Tel. & Tel. Convertible Deb. (Subscription)
Feb. 24	\$29,000,000	Indiana-Michigan Electric Bonds (Competitive)
Feb. 25	\$30,000,000	Pennsylvania Electric Bonds (Competitive)
Feb. 25	\$15,000,000	Cleveland Electric Illuminating Bonds (Competitive)
Feb. —	N. A.	Central Illinois Public Service Bonds (Competitive)
		South Carolina Electric & Gas Common Stock

N. A. Not available.

Figure 1 consists of five bar charts, each representing a different region. The y-axis for all charts is 'THOUSANDS OF KILOWATT-HOURS' ranging from 0 to 36,000 in increments of 2,000. The x-axis represents the months of the year from January to December. Each chart displays three data series: 1961 (top bar), 1951 (middle bar), and 1950 (bottom bar). The bars are shaded to indicate different components: the top portion represents 'PEAK CAPABILITY' and the bottom portion represents 'GROSS MARGIN'. A specific value of 17.7 is marked for the Northwest region in January.

Region	Month	1961 (Peak Capability)	1961 (Gross Margin)	1951 (Peak Capability)	1951 (Gross Margin)	1950 (Peak Capability)	1950 (Gross Margin)
I - NORTHWEST	JAN	16.9	17.7	17.5	12.3	18.0	11.0
	FEB	16.5	13.5	11.9	10.7	11.0	10.0
	MAR	16.5	13.5	11.9	10.7	11.0	10.0
	APR	16.5	13.5	11.9	10.7	11.0	10.0
	MAY	16.5	13.5	11.9	10.7	11.0	10.0
	JUN	16.5	13.5	11.9	10.7	11.0	10.0
	JUL	16.5	13.5	11.9	10.7	11.0	10.0
	AUG	16.5	13.5	11.9	10.7	11.0	10.0
	SEP	16.5	13.5	11.9	10.7	11.0	10.0
	OCT	16.5	13.5	11.9	10.7	11.0	10.0
	NOV	16.5	13.5	11.9	10.7	11.0	10.0
	DEC	16.5	13.5	11.9	10.7	11.0	10.0
II - EAST CENTRAL	JAN	24.5	20.0	22.3	17.3	14.5	10.0
	FEB	24.5	20.0	22.3	17.3	14.5	10.0
	MAR	24.5	20.0	22.3	17.3	14.5	10.0
	APR	24.5	20.0	22.3	17.3	14.5	10.0
	MAY	24.5	20.0	22.3	17.3	14.5	10.0
	JUN	24.5	20.0	22.3	17.3	14.5	10.0
	JUL	24.5	20.0	22.3	17.3	14.5	10.0
	AUG	24.5	20.0	22.3	17.3	14.5	10.0
	SEP	24.5	20.0	22.3	17.3	14.5	10.0
	OCT	24.5	20.0	22.3	17.3	14.5	10.0
	NOV	24.5	20.0	22.3	17.3	14.5	10.0
	DEC	24.5	20.0	22.3	17.3	14.5	10.0
III - SOUTH CENTRAL	JAN	23.7	18.0	13.7	10.0	10.0	10.0
	FEB	23.7	18.0	13.7	10.0	10.0	10.0
	MAR	23.7	18.0	13.7	10.0	10.0	10.0
	APR	23.7	18.0	13.7	10.0	10.0	10.0
	MAY	23.7	18.0	13.7	10.0	10.0	10.0
	JUN	23.7	18.0	13.7	10.0	10.0	10.0
	JUL	23.7	18.0	13.7	10.0	10.0	10.0
	AUG	23.7	18.0	13.7	10.0	10.0	10.0
	SEP	23.7	18.0	13.7	10.0	10.0	10.0
	OCT	23.7	18.0	13.7	10.0	10.0	10.0
	NOV	23.7	18.0	13.7	10.0	10.0	10.0
	DEC	23.7	18.0	13.7	10.0	10.0	10.0
IV - NORTH CENTRAL	JAN	14.9	10.0	10.0	10.0	10.0	10.0
	FEB	14.9	10.0	10.0	10.0	10.0	10.0
	MAR	14.9	10.0	10.0	10.0	10.0	10.0
	APR	14.9	10.0	10.0	10.0	10.0	10.0
	MAY	14.9	10.0	10.0	10.0	10.0	10.0
	JUN	14.9	10.0	10.0	10.0	10.0	10.0
	JUL	14.9	10.0	10.0	10.0	10.0	10.0
	AUG	14.9	10.0	10.0	10.0	10.0	10.0
	SEP	14.9	10.0	10.0	10.0	10.0	10.0
	OCT	14.9	10.0	10.0	10.0	10.0	10.0
	NOV	14.9	10.0	10.0	10.0	10.0	10.0
	DEC	14.9	10.0	10.0	10.0	10.0	10.0
V - NORTH	JAN	20.1	17.6				

**Regional Peak Capabilities, Peak Loads, and Gross Margins—December and Summer—Median Hydro Conditions**  
Source, Edison Electric Institute



**Regional Peak Capacities, Peak Loads, and Gross Margins—December and Summer—Median Hydro Conditions**  
 Source, Edison Electric Institute

# PUBLIC UTILITIES FORTNIGHTLY

cent in 1959, and 21.9 per cent in 1960, based on median hydro conditions. If hydro conditions should be adverse, however, these percentages would be reduced to 18.7, 20, and 19.6 per cent, respectively.

**T**HE manufacture of heavy electric power equipment seems to be continuing at a high rate of production, and the amount of generating equipment now scheduled for shipment in 1958 is at an all-time record of 17.8 million kilowatts. Of the total generating capacity on order

and scheduled for shipment, 91 per cent is steam and 9 per cent hydro. About 89 per cent is for U. S. electric power systems, 3 per cent for U. S. industrial companies, and 8 per cent for shipment outside continental United States.

The survey committee has adjusted downward some of the 1957 estimates made by the individual utility systems. Thus while the utility companies forecast an average gain of 6.8 per cent in output for 1957 over 1956, the committee has cut this to 5.5 per cent.



## RECENT FINANCIAL DATA ON GAS UTILITY STOCKS

Annual Rev. (Mill.)		12/11/57 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Inc. In Sh. Earnings 1951-56	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity	
Pipelines & Integrated Cos.											
\$ 4	O	Ala.-Tenn. Nat. Gas ....	20	\$1.20	6.0%	\$1.46Se	—	14%	13.7	82%	40%
158	S	American Nat. Gas ....	51	2.60	5.1	3.70Se	D20%	13	13.8	70	34
50	A	Arkansas Louis. Gas ....	25	1.20	4.8	1.67Se	9	23	15.0	72	56
47	O	Colo. Interstate Gas ....	36	1.25	3.5	4.38Se	D17	36	8.2	29	35
343	S	Columbia Gas System ..	16	1.00	6.3	1.22Se	D17	7	13.1	82	46
7	O	Commonwealth Gas ....	6	(a)	—	.54De	107	D	11.1	19	76
16	O	Commonwealth N. G. ...	33	1.60	4.8	2.89Se	6	X	11.4	55	39
12	S	Consol. Gas Util. ....	13	.90	6.9	1.45Jy	D2	—	9.0	62	64
266	S	Consol. Nat. Gas ....	42	2.00	4.8	3.39Se	4	4	12.4	59	65
17	O	E. Tenn. Nat. Gas ....	8	.60	7.5	.85Se	4	X	9.4	71	19
186	S	El Paso Nat. Gas ....	26	1.30	5.0	2.02Ma	10	7	12.9	64	27
44	S	Equitable Gas ....	27	1.60	5.9	2.13Je	D11	4	12.7	75	36
19	O	Gulf Interstate Gas ....	9	.50	5.6	.77De	—	—	11.7	65	18
31	O	Houston N. G. ....	38	1.50	4.0	2.26Jy	24	6	16.8	66	22
17	O	Kansas-Nebr. Nat. Gas ..	34	1.80(r)	5.3	2.48Se	D2	3	13.7	73	30
95	S	Lone Star Gas ....	33	1.80	5.5	2.38Se	1	5	13.9	76	43
71	S	Miss. River Fuel ....	30	1.60	5.3	2.33De	16	8	12.9	69	50
25	S	Montana-Dakota Util. ..	20	1.00	5.0	1.45Je	D3	19	13.8	69	32
23	O	Mountain Fuel Supply ...	22	1.20	5.5	1.68Se	2	9	13.1	71	53(s)
81	S	National Fuel Gas ....	17	1.10	6.5	1.35Se	D19	8	12.6	81	62
113	S	Northern Nat. Gas ....	48	2.80	5.8	3.69Se	9	7	13.0	76	34
43	S	Oklahoma Nat. Gas ....	27	1.50	5.6	1.77Oc	D17	6	15.3	85	34
113	S	Panhandle East. P. L. ...	37	1.80	4.9	2.75De	10	16	13.5	65	37
13	O	Pennsylvania Gas ....	23	1.20	5.2	2.26De	40	D	10.2	53	64
166	S	Peoples G. L. & Coke ....	37	2.00	5.4	2.81Se	D7	7	13.2	71	42
80	S	Southern Nat. Gas ....	36	2.00	5.6	2.16Se	D20	4	16.7	93	46
34	O	Southern Union Gas ....	26	1.12	4.3	1.52De	D10	9	17.1	74	35
268	O	Tenn. Gas Trans. ....	27	1.40	5.2	1.91Se	—	18	14.1	73	20
175	O	Texas East. Trans. ....	22	1.40	6.4	2.28Se	8	3	9.6	61	18
71	O	Texas Gas Trans. ....	18	1.00(j)	5.6	2.16Se	D2	4	8.3	46	27
88	O	Transcont. Gas P. L. ....	17	1.00(u)	5.9	1.67Se	30	19	10.2	60	19
273	S	United Gas Corp. ....	27	1.50	5.6	2.46Se	11	7	11.0	61	41
Averages .....				5.4%					12.6	67%	
Retail Distributors											
27	A	Alabama Gas ....	24	\$1.60	6.7%	\$2.18Se	D9%	13%	11.0	73%	42%
43	O	Atlanta Gas Light ....	27	1.60	5.9	2.09Se	D24	3	12.9	77	38

# FINANCIAL NEWS AND COMMENT

Annual Rev. (Mill.)	(Continued)	12/11/57 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. In Sh. Earns. 1951-56	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
5	O Berkshire Gas .....	15	1.00	6.7	1.51My	7	46	9.9	68	35
6	O Bridgeport Gas .....	26	1.60	6.2	1.84Se	D29	48**	14.1	87	43
4	O Brockton-Taunton Gas ..	15	.90	6.0	1.29De	32	60	11.6	70	40
59	S Brooklyn Union Gas ....	35	2.00	5.7	2.71Se	D8	6	12.9	74	47
1	O Cascade Nat. Gas .....	5	—	—	Def.De	—	—	—	—	13
36	O Central El. & Gas .....	15	.90	6.0	1.58Je	D8	9	9.5	57	17
12	O Cent. Indiana Gas .....	12	.80	6.7	1.04Je	D7	4	11.5	77	65
5	O Chattanooga Gas .....	4	.30	7.5	.38Au	D20	14	10.5	79	46
64	O Gas Service .....	21	1.36	6.5	1.63Se	D48	0	12.9	83	40
7	O Hartford Gas .....	35	2.00	5.7	3.01De	39	5	11.6	66	48
2	O Haverhill Gas .....	21	1.32	6.3	1.90Se	5	2	11.1	69	58
17	O Indiana Gas & Water ...	16	1.00(k)	6.3	1.37Oc	D17	9	11.7	73	45
45	S Laclede Gas .....	14	.80	5.7	1.14Je	D10	7	12.3	70	33
4	O Michigan Gas Util. ....	18	1.05	5.8	1.22Se	D21	14	14.8	86	38
5	O Midsouth Gas .....	10	Stk(o)	—	.65Ap	4	D	15.4	—	39
42	O Minneapolis Gas .....	24	1.40	5.8	2.05Se	D10	14	11.7	68	38
15	O Miss. Valley Gas .....	16	1.12	7.0	1.37Se	D29	5	11.7	82	30
4	O Mobile Gas Service .....	18	1.00	5.6	1.23Se	—	D	14.6	81	33
7	O New Haven Gas .....	28	1.80	6.4	2.26De	D6	10	12.4	80	66
12	O New Jersey Nat. Gas ....	23	1.40(i)	6.1	2.36Ma	12	—	9.7	59	32
80	O No. Illinois Gas .....	16	.88	5.5	1.35Oc	D9	—	11.9	65	54
8	O North Penn Gas .....	8	.60	7.5	1.02	23	7	7.8	59	56
224	S Pacific Lighting .....	40	2.00	5.0	2.04Se	D31	14	19.6	98	38
19	O Pioneer Nat. Gas .....	23	1.40	6.1	2.02De	15	17	11.4	65	39
13	O Portland Gas & Coke ...	14	.60	4.3	.99Se	D6	8	14.1	61	36
2	O Portland Gas Lt. ....	8	.50	6.3	.73De	D40	—	11.0	70	25
8	A Providence Gas .....	8	.56	7.0	.63De	6	15	12.7	89	60
3	A Rio Grande Valley Gas ..	24	.15	6.0	.28De	7	9	9.0	54	58
5	O So. Atlantic Gas .....	11	.80	7.3	1.05De	17	2	10.5	76	36
11	O So. Jersey Gas .....	25	1.50	6.0	2.09Au	—	28	12.0	72	55
26	S United Gas Impr. ....	35	2.00	5.7	2.48Je	3	1	14.1	81	64
48	S Wash. Gas Light .....	35	2.00	5.7	2.46Se	D29	4	14.2	81	43
8	O Wash. Nat. Gas .....	10	(1)	—	.38Je	D3	X	—	—	41
7	O Western Ky. Gas .....	10	.60	6.0	.72Je	D37	20	13.9	83	38
Averages .....				6.2%				12.2	74%	



## RECENT FINANCIAL DATA ON TELEPHONE, TRANSIT, AND WATER STOCKS

Annual Rev. (Mill.)		12/11/57 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. In Sh. Earnings 1951-56	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
<b>Communications Companies</b>										
<i>Bell System</i>										
\$5,825	S Amer. T. & T. (Cons.) ..	166	\$9.00	5.4%	\$13.00Au*	D3%	2%	12.6	70%	66%
274	A Bell Tel. of Canada ....	40	2.00	5.0	2.25De	D3	2	17.8	89	64
43	O Cin. & Sub. Bell Tel. ....	79	4.50	5.7	5.58De	2	4	14.2	81	100
209	A Mountain Sts. T. & T. ...	114	6.60	5.8	9.36Au	7	13	12.2	71	73
308	A New England T. & T. ....	125	8.00	6.4	8.30Se	D9	4	15.1	96	64
792	S Pacific T. & T. ....	117	7.00	6.0	9.16Au	D1	4	12.7	76	64
98	O So. New Eng. Tel. ....	33	2.00	6.1	2.19De	13	3	15.1	91	69
Averages .....				5.8%				14.2	82%	
<i>Independents</i>										
5	O Anglo-Canadian Tel. ....	27	\$ .60	2.2%	\$3.25Se	6%	54%	8.3	18%	44%
37	O British Col. Tel. ....	38	2.00	5.3	2.59Se	D22	12	14.7	77	38
3	O Calif. Inter. Tel. ....	11	.70	6.4	1.08Se	24	—	10.2	65	24
15	O Calif. Water & Tel. ....	19	1.20	6.3	1.54Jy	NC	10	12.3	78	42
16	O Central Telephone .....	20	1.00(m)	5.0	1.94My	NC	16	10.3	52	29
4	O Commonwealth Tel. ....	13	.80	6.2	1.48Je	NC	—	8.8	54	38



# PUBLIC UTILITIES FORTNIGHTLY

Annual Rev. (Mill.)	(Continued)	12/11/57 Price About	Divi- dend Rate	Approx. Yield	Recent Share Earnings	% In- crease	Aver. Incr. In Sh. Earnings 1951-56	Price- Earnings Ratio	Div. Pay- out	Approx. Common Stock Equity
4	O Florida Telephone .....	19	.90	4.7	1.11My	NC	D	17.1	81	42
281	S General Telephone .....	40	2.00	5.0	3.11Oc	NC	32	12.9	64	35
16	O Hawaiian Telephone ....	17	1.00	5.9	1.28Oc*	D9	19	13.3	78	42
6	O Inter-Mountain Tel. ....	14	.80	5.7	.80De	D16	2	17.5	100	62
21	O Rochester Tel. ....	17	1.00	5.6	1.34Se	D19	6	12.7	75	39
3	O Southeastern Tel. ....	15	.90	6.0	1.44Ma	4	13	10.4	63	42
9	O Southwestern St. Tel. ...	19	1.20	6.3	1.69Au	NC	4	11.2	71	40
10	O Tel. Service of Ohio ....	97	1.20	1.2	6.73Je	10	NA	14.4	18	NA
31	O United Utilities .....	21	1.25	6.0	1.63De	D5	5	12.9	77	36
13	O West Coast Tel. ....	17	1.00	5.6	1.53Se	23	18	11.1	65	41
252	S Western Union Tel. ....	15	1.20	8.0	2.21De	5	15	7.1	54	86
Averages .....				5.4%				12.0	63%	
<b>Transit Companies</b>										
19	O Baltimore Transit .....	7	\$.50	7.1%	\$.18De	D86%	X	—	278%	28%
13	O Cincinnati Transit .....	4	.30	7.5	.48De	41	10%	8.3	63	46
8	O Dallas Transit .....	5	.35	7.0	.90De	58	0	5.6	39	54
33	S Fifth Ave. Coach .....	20	2.50	12.5	3.47De	21	4	5.8	73	63
244	S Greyhound Corp. ....	15	1.00	6.7	1.27De	8	—	11.8	79	52
23	O Los Angeles Trans. ....	18	1.40	7.8	1.23De	30	11	14.6	114	92
26	S Nat. City Lines .....	20	2.00	10.0	2.45De	D10	11	8.2	82	94
13	O Niagara Frontier Trans. .	8	.60	7.5	.28De	D81	—	—	214	82
69	O Philadelphia Trans. ....	5	.60	12.0	1.67De	31	8	3.0	36	38
21	A Pittsburgh Rys. ....	5	.50	10.0	.57Je	42	3	8.8	88	90
6	O Rochester Transit .....	4	.40	10.0	.68De	58	18	5.9	59	41
23	O St. Louis P. S. ....	8	1.00	12.5	.69De	1	19	11.6	145	97
15	S Twin City R. T. ....	13	1.80	14.0	1.21De	1	D	10.7	149	48
22	O United Transit .....	5	.60	12.0	.88De	D15	21	5.7	68	48
Averages .....				9.8%				8.3	106%	
<b>Water Companies</b>										
<b>Holding Companies</b>										
40	S American Water Works .	9½	\$.60	6.3%	\$.98Se	D6%	6%	9.7	61%	17%
<b>Operating Companies</b>										
5	O Bridgeport Hydraulic ...	29	\$1.70(r)	5.8%	\$2.10De	2%	4%	13.8	81%	58%
13	O Calif. Water Service ...	41	2.40	5.9	3.47Oc	24	3	11.8	69	32
4	O Elizabethtown Water ...	38	1.60	4.2	3.28De	16	31	11.6	49	56
9	S Hackensack Water .....	38	2.00	5.3	2.87De	D20	2	13.2	70	37
8	O Indianapolis Water .....	18	1.00	5.6	1.42De	D12	17	12.7	70	34
5	O Jamaica Water .....	32	2.00	6.3	2.88Se†	—	8	11.1	69	25
4	O New Haven Water .....	54	3.40	6.3	2.34Je	NC	—	23.1	145	58
2	O Ohio Water Service ....	24	1.50(t)	6.3	2.33Je	D13	7	10.3	64	36
8	O Phila. & Sub. Water ....	29	.50(e)	1.7	3.25Je	38	3	8.9	15	28
2	O Plainfield Union Water ..	56	3.00	5.4	5.04De	D6	5	11.1	60	39
4	O San Jose Water .....	41	2.80(r)	6.8	3.81Oc	10	9	10.8	73	45
10	O Scranton-Springbrook ...	16	1.00	6.3	1.48Se	3	8	10.8	68	29
5	O South. Calif. Water ....	14	.80	5.7	1.19Je	14	8	11.8	67	34
4	O W. Va. Water Service ..	18	.68(p)	3.8	1.83Se	D1	—	9.8	33	17
Averages .....				5.4%				12.2	67%	

A—American Stock Exchange. O—Over-counter or out-of-town exchange. S—New York Stock Exchange. Ja—January; F—February; Ma—March; Ap—April; My—May; Je—June; Ju—July; Au—August; Se—September; Oc—October; N—November; De—December. (e)—Also 5 per cent stock dividend December 1, 1957. (i)—Two per cent stock dividend December 10, 1957. (j)—Two per cent stock dividend December 30, 1957. (k)—Two per cent stock dividend December 19, 1957. (l)—Four per cent in stock May 3, 1957. (m)—Ten per cent stock dividend January 2, 1957. (o)—Forty per cent stock dividend June 14, 1957. (p)—Also 1 per cent stock dividend quarterly. (q)—Ten cents in January, 1957. (r)—Includes extras. (s)—Estimate for December 31, 1957. (t)—Also 2 per cent stock dividend September 30, 1957. (u)—Also 10 per cent stock dividend December 30, 1957. (v)—Also 2 per cent stock dividend December 30, 1957. NC—Not comparable. NA—Not available. D—Deficit 1951. \*On average shares. \*\*Nineteen fifty-one was an abnormal bad year. †—Adjusted to eliminate 24 cents per share of nonrecurring tax savings.



## What Others Think

### A New Look at Utility Regulation

ARE present concepts of utility rate making adequate to meet today's economic conditions? The suggestion that they are not appears in a very thoughtful and carefully documented article in a recent edition of the *Virginia Law Review*, entitled "Public Utility Rate Regulation: A Re-examination." The authors, G. Stanley Joslin and Arthur S. Miller, professors of law, Lamar School of Law, Emory University, very persuasively contend that the U. S. Supreme Court's decision in the Hope case, which supposedly opened the door to a more flexible approach to rate regulation, has not provoked the thoroughgoing re-examination of utility rate making which now seems imperative. "A number of state public service commissions have, it is true, ostensibly changed the basis for rate making and the fair value formula of traditional rate making has been discarded by several states," the authors admit. "Even so, it can be said that the methods used by commissions today hew rather strictly to the historical patterns, being for the most part variations on the basic theme of a reasonable return on investment. It can be said that a property concept has been, and still is, dominant in utility rate making."

According to the authors, the Hope case has had the minimal result of merely freeing state public service commissions

from federal constitutional restrictions on the type of rate base they used in rate setting. The end result still had to be judged by some rational standard, and that standard has so far involved resort to pre-Hope methods.

Conditions existing today differ markedly from those existing at the time public utility rate making came into being. The most significant change involves greater government intervention into business affairs, particularly with respect to the regulation of the value of money. The steady decline in the purchasing power of the dollar is perhaps the distinctive feature of the American economy today. Another difference pointed out by the authors is the tremendous increase in demand for utility services, accompanied by technological improvements, which has obliged utilities to plan not only for increased amount of service to more and more customers, but also to replace their existing plant to keep pace with new technological developments.

"THE net result is that utilities are being regulated in this post-1945 era under guiding principles and concepts which had their inception during a period of time when both the economic, social, and legal conditions differ markedly from those existing currently. Today's regula-

## PUBLIC UTILITIES FORTNIGHTLY

tion takes place in a context of unsurfeited consumer demand and under general inflationary economic conditions. . . .

**"P**ATTERNS of special treatment for public utilities commenced in the latter part of the nineteenth century have continued, although the social and economic conditions which generated the original impulse toward regulation have changed in considerable degree. The monopoly position of the utility was the economic justification for government regulation . . . to protect the consumer.

"It can be questioned whether the position of power which monopoly gives the utility is any greater, or any more subject to possible abuse, than the position occupied by the leaders in some of the so-called 'basic' industries. Steel is a ready example; there are many others. Industries historically denominated as 'public utilities' receive price regulation, while industries equally important and equally beyond the consumer's control do not. This has had the result that utilities, speaking generally, have not shared fully in the rise in profit level of business life. Despite a large number of rate increases, the utilities have had to fight a continuing battle to maintain an equitable return. This is a matter of major importance. For with the continuing demand for more and more utility services, capital acquisition in amounts sufficient to maintain present facilities, to provide for adjustment to technological improvements, and to take care of that demand becomes increasingly difficult. Low utility returns relative to those of other industries have been justified on traditional grounds—the absence of competition, the Bluefield formula, etc.—but it is questionable whether these orthodox conceptions fully meet present-day problems.

"During the next twenty to thirty years

the demand for utility services will increase, rather than decrease. This will take place in three ways: quantitatively, geographically, and technologically. This, for the utility, has to be translated into an ability to attract capital in amounts sufficient to give reasonable satisfaction to that demand. That brings up the very important question of whether rate setting today allows for the type of expansion necessary, and of whether public service commissions fully realize the enormous capital needs of utilities."

**A** MAJOR criticism of present methods of rate making in the authors' view is the apparent assumption that only consumers and investors have an interest in rate regulation. The authors point out that the public also has an interest and suggest that its interest may not lie solely in low rates. While individual consumers of a utility may be primarily interested in low rates, the general public is interested in the "rational allocation of scarce resources." In addition, there is the interest of management which is not always identical to that of investors, the public, or the consumers. Finally, there is the interest of the employees of a utility in rate making. The point, say the authors, is that "the legal emphasis on the investor alone in utility rate making operates to minimize other important interest in rates. If rate making is to become thoroughly realistic, a new approach seems desirable, even necessary, an approach in which attention is paid to all of the interests involved."

A second observation with respect to rate regulation today is that to some extent the basic theory of the regulatory process—a co-operative endeavor between the commission and the utility—has broken down. What has happened instead, the authors contend, is that the utilities

## WHAT OTHERS THINK

and the commissions have become adversaries in the worst sense of the term, rate regulation often degenerating into a battle of wits. Antagonism, rather than co-operation, is the mark of many regulatory proceedings. As an illustration, the authors cite what is called the "cyclical nature of rate regulation":

. . . During times of economic prosperity, commissions tend to use original cost as the rate base, with the utilities pushing for reproduction cost. Then in times of depression or recession, the positions reverse as in a game of musical chairs—the commissions argue reproduction cost, the utilities original cost. While this is not a uniform pattern, there is evidence sufficient to support the cyclical nature conception of rate regulation. It illustrates the idea that commissions seem to feel their job is to oppose whatever utilities say. Rather they should analyze and assess the problem area in order to ascertain whether the public interest, broadly conceived, is being furthered.

**T**HE problem is more acute, of course, where state utility commissioners are elected officials, rather than appointive. In this situation, the authors note, utilities tend to become political footballs for use as a means of exciting and maintaining voter interest.

Still another unfortunate aspect of present-day regulation is the well-known regulatory lag, running at times into several years. "Unjustifiable at best and a breakdown of regulation at worst, it has led some observers to suggest that one good way to cut down on the lag is to eliminate or minimize judicial review of rates set by commissions," the authors comment. They deny, however, that judicial review is to blame for the slowness in rate regulation and disagree with those who would

abandon the doctrine, first enunciated in the Supreme Court's decision in *Ohio Water Valley Co. v. Ben Avon Borough*, that due process of law requires an independent review of agency rate making. The Ben Avon doctrine has been modified by subsequent cases, at least to the extent of creating a presumption of validity of administrative findings. Basically, however, the doctrine is still alive in the state courts, some commentators to the contrary notwithstanding, and the authors go on record for its retention as an essential element of the rate-making process. They explain:

Those who argue . . . for the further mitigation of the Ben Avon doctrine appear to be greatly influenced by the assumption that it is the courts alone which slow the regulatory process and by . . . the "appalling consequences" of the rule of *Smyth v. Ames*. They seem affected, too, by the idea that a decision is what is necessary, more so than a *correct* decision. . . . Correctness here is a highly desirable virtue, and it is just as necessary for there to be a "fair" (to all concerned) decision as it is for a decision to be made. A utility is, by definition, an activity affected with a strong public interest, one which cannot be allowed to go out of business. In order to do its job effectively, to continue to make necessary alterations, to take care of improvements in technology, and to accomplish the expansion necessary to take care of an expanding population, it must be allowed to make those rates which will result, not in penury of operation, but operations calculated to fulfill all of its public functions. It must, in effect, be guaranteed at least an opportunity to earn a return sufficient to do just that. Hence, it will not do to say that (1) rate making is extremely complicated and drawn

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out; (2) agencies are assumed to be more "expert" than courts; therefore (3) agencies should have the final determination in rate-making matters. Required is an evaluation—a judgment—made after the experts have brought forth the economic facts. That evaluation perhaps can better be made by a judge.

... There has been a tendency in some quarters in recent years to denigrate what are called "mere property rights" while maintaining the primacy of "personal rights." The so-called "presumption of unconstitutionality" of statutes limiting first amendment freedoms is a case in point... But it does not alter the importance to be placed on individual liberties and personal rights to say that the right to own and enjoy property is also a personal right of the first order. It is indeed a strange constitutional doctrine which will, in theory at least, protect individual rights in personal security, but will not protect individual rights in property. What price personal security, if "private" utilization of property is severely limited? The point here is not that there should be a return to the not-so-halcyon days when property rights were given pre-eminence in the judicial cosmologies; rather, it is that both property and personal rights are important and should be accorded similar weight and similar protections.

**I**F the controversy over judicial control *versus* agency control in rate making continues to be a problem in the regulatory process, an equally important problem results from the continued use of the rate base/rate of return formula in rate determination. Under the Hope decision, commissions were left to choose any method of rate determination they deemed

appropriate in a particular case. Despite the implied freedom granted to the states to move away from the traditional formula, the authors contend that the rate base and rate of return method is still the dominant concept in rate regulation. The extent of the freedom given by the Hope decision remains to be settled. What is clear, however, is that the end result doctrine in the Hope decision is not in itself sufficient. The authors explain:

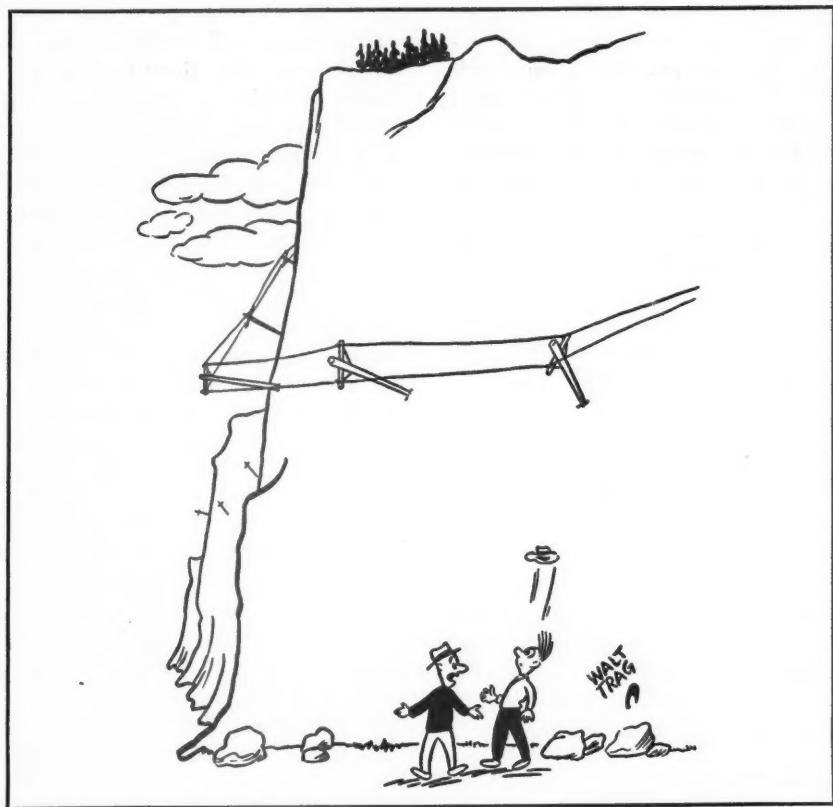
... Ends cannot be meaningfully separated from means, as the latter obviously determine the ends reached. The result must be judged against some rational standard and that standard must take into consideration the means used to reach the end. It is also obvious that although chief attention today is paid to rate of return problems, this does not mean that the rate base is unimportant.

Whether the method used in rate making need be the historical rate base/rate of return concept is, as noted above, still unsettled. But it is clear that some *rational* method must be used in calculating the proper rates. It is possible, accordingly, to argue with some persuasive effort that a breakaway may now be made from traditional rate base concepts and adoption made of a more realistic basis for utility rate making. This was foreshadowed by Justice Brandeis' statement that "the compensation which the Constitution guarantees an opportunity to earn is the reasonable cost of conducting the business." It is the total number of dollars a utility can earn which is important, dollars sufficient to pay costs and add a profit. . . .

Under present law, a utility is entitled to a "nonconfiscatory" return—such rates as will render it a reasonable return on the rate base used. Generally,



## WHAT OTHERS THINK



"HOW ELSE COULD YOU DO IT?"

this has been taken to mean that the return should be equal to that being made at the same time and in the same part of the country in other businesses having corresponding risks and uncertainties. On the other hand, the public may impose the obligation on a utility to render reasonably adequate service, without discrimination, to all who desire its services, at the legally prescribed rate within the areas a particular utility serves.

Is the public entitled to more? Is the utility? The answer to these questions may well be determined by the answer

to a further question: Is it time for a "new look" in utility rate regulation? . . .

THE authors locate several trouble spots in the relationship between utility management and regulatory commissions with respect to determining the proper rate of return. The major battleground in this area is the determination of the amount the consumer of utility services should pay for the use of the investors' property; *e.g.*, the rate of return on equity capital. The authors see no excuse for the usually wide divergence between

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the allegation of cost of capital made by utilities and by the commission, since reliable statistics are available from which a satisfactory yardstick for cost of capital can be found. They contend that the sometimes violent disagreements and time-consuming hearings and appeals occur primarily "because of personal elements diverting, coercing, enticing, or misleading the presenter of the facts or opinions, or the assaying of them at regulatory or judicial levels. One source of the difficulty is the general requirement by commissions with respect to utility debt ratios. The authors suggest that the unique status of a public utility does not justify the regulator's demanding the use of debt capital by determining utility revenues based on what he decides should be the debt capital used.

"Our primal contention is that the basis of productive capital is risk capital and that the return which should result must in the long view be sufficient for the risk involved. Aside from individual luck or unusual business clairvoyance, debt capital does not cheapen the over-all productive process. The total risk is the same and so the justifiable and required return is the same. The only difference is that of shifting more of the risk onto the ownership interest and less on the debt interest. If we assume that the risk and need of capital justify a total return of 8 per cent, and the capital used is all equity capital, the justifiable return on equity investment would be 8 per cent. But if the same enterprise is financed, for example, with one-half debt capital currently costing 6 per cent, the economic factors have then as a matter of fact shifted the remaining risk element onto the ownership interest. The result should still be an over-all return of 8 per cent. However, if the regulatory arm by fiat says that by shifting debt capital somehow the total risk and other eco-

nomic elements change so that only 1 per cent increase will be allowed the ownership interest, then there is at least a temporary lowering of the allowable over-all return on capital which may be contended is a justifiable saving to the consumer. This seems to be to disregard totally the fact that every unit of debt capital throws an added burden on equity capital. . . .

"It seems, then, that it is economically sound to leave with management the decision as to proper debt ratio, at least within that area where the directors are not usurping or defaulting on their duties as directors. This would then leave them with the responsibilities to the ownership interest which will take the advantages and losses resulting from misjudgments in constructing the enterprise's capital structure. Although little serious objection has been made by the utilities to the hypothetical debt-ratio device, perhaps because of a feeling of hopelessness in the present economic trend and because other areas have been of more critical interest to both the regulator and the regulated, its use should be reconsidered and eliminated."

THE most serious defect in the regulatory process today, according to the authors, is the requirement that the decision of the commission be prospective. The authors believe that most of the sharp contention between the regulator and the regulated could be eliminated by adopting a retrospective approach to the problem of rate making. The use of a prospective approach drives both the regulator and the regulated into adversary positions. The regulator fears that an allowance which may later prove to be excessive or unjustified will be used to subject him to various direct attacks and innuendoes, possibly at great personal inconvenience. ". . . By the finality of the decision . . . the regulator is driven to grant as low a

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return as possible so that later events will not embarrass him. The final nature of the decision further subjects the regulator continually to watch the development of later events so that by new and later decisions he may stop a growing imbalance because of general economic decline or specific unforeseen cost diminutions. This in times of economic decline or general stability tends to keep the regulator continually in a position actively adverse to the utility interests, with all the undesirable personal elements that result therefrom."

The utility, on the other hand, is obliged by the finality of the decision to make demands for a return which will at least be adequate for an unknown future period. Like the regulator, the management may be also subject to criticism if events turn out differently than expected. In a time of rising costs, there must be periodic requests for rate increases, accentuated by the lag between the ascertainment of facts for decision and the effective date of the new order.

To remedy this difficulty, the authors suggest a plan that would eliminate the present finality of a rate order to provide for a more reflective analysis and judgment. "... Such a plan would call for a determination and allowance of the return to which a utility was entitled for a period of time already past. Rate making would be *retrospective*, rather than *prospective*. Although many of the factual bases for determination would still be uncertain, as value of the property, etc., the cost of construction, labor costs, costs of capital, and others would then be easily calculable, but even though some factual elements are as yet uncertain, the unhurried atmosphere, and the assurance that neither interest will be badly mauled as they may well be on the prospective de-

termination, will give an atmosphere which will result in decisions seldom at variance with the ultimate 'fair and reasonable' to both interests. . . .

"The essential elements of a retrospective plan for determining the allowable utility's income would be based upon a permissive rate of return for the future which would be finally adjusted later upon facts and circumstances which have transpired during the period of the permissive rate. This period could be begun by an interim order of the regulatory agency, or by giving the utility freedom to ascertain its estimated return needed for future operations. Where the utility has recently had its rates fixed by order, it might well permit that rate to continue for the reviewable period. In other instances, an informal hearing to fix a future allowable return, subject to final adjustment later, probably would be more desirable. The adjustable period should be a fixed number of years or at a time requested by the utility or regulatory agency. In any event, the final determination would always be a fixing of a proper rate of return for the past with no necessity to look to possible future events or changes."

A RETROSPECTIVE method of regulation would meet with some objections, the authors acknowledge, but none too formidable to be overcome. A statutory basis for such a method would be desirable and required in most states. But this could be accomplished in most cases by the addition of only minor provisions and amendments. As for the merits of a retrospective approach, the authors state:

A plan which enables the regulatory arm and the utility management to determine utility income on past facts would remove most of the basis for the inharmonious approach and give a basis for decision as worked out by reason-

## PUBLIC UTILITIES FORTNIGHTLY

able men within the flexible limits of such contemplation. Regulatory lag would be ended, as would the forces that tend now to keep the two interests continually in a hostile attitude. In the unhurried atmosphere resulting from this adjustable determination and the stability of past facts as the basis for a final decision, a more realistic and salutary relation will result between the regulator and regulated to the benefit of both the consuming and owning public. No cure is possible for the zealots or bigots on either side but with this retrospective approach the uncertain areas behind which they have been able to hide while shouting "reasonableness" will be appreciably narrowed or eliminated.

This plan requires only a slight change in existing practice, being based on established concepts and familiar procedures. As such, it has the desirable characteristics of allowing for the continuation of well-known nomenclature and of not requiring violent changes. . . .

**W**HILE adoption of a retrospective approach would cure many ills in the present regulatory atmosphere, it can do little to correct what the authors regard as the basic weakness in rate regulation today—the continued dependence on property valuation, with the return to the investor being the primary consideration in setting rates. Two fundamental principles provide the authors with a springboard for their "new look" in utility rate making: (1) the principle that a utility must and will continue to exist, no matter who runs it or how it is regulated, and (2) in view of the foregoing, the most important need for a utility is for income sufficient to fulfill the public's requirements. Acceptance of the principle of a guaranteed income necessarily carries

with it what amounts to a guaranteed profit. Looking at the problem in this light, the task facing the regulators today is to provide, in rates set, for assurance that a given utility will obtain enough to pay its reasonable costs and to return some sort of profit. "The main regulatory focus could then be on service," the authors explain, "rather than on return to the investor—although the investor would receive his full protection. The chief group interests involved in the utility enterprise, both internally and externally, would thus receive recognition from the state commissions."

To attain this goal, a new approach to rate regulation might take account of the concept involved in the government's cost-plus-fixed-fee contracts. If it is true that the goal of regulation is to further the public interest, the authors argue, then it is not return to the investor but service to the public which should be the guiding criterion of rate making. It follows that the basic theory of rates should be predicated on establishing rates which will provide that amount of income necessary to provide for the reasonable demands of the public for the utility services in question.

**"P**RESENT-DAY rate regulation seems to approximate a CPFF (cost-plus-fixed-fee) situation. The utility, in the rates set, is in effect guaranteed payment of its operating costs as prospectively visualized, plus a profit (rate of return) large enough for it to attract capital. One aspect, accordingly, of a 'new look' in rate making would be for recognition to be made of the close analogy between rate making and CPFF contracting. This would at least have the not inconsiderable, desirable result of establishing a realistic vocabulary for what in fact goes on in rate regulation. Calling rate regulation 'cost plus profit' may be old wine in new

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"OH, GOLLY, NO! WE'RE LAYING CABLE"

bottles, but those new bottles do correspond more to reality than the statement that rate regulation is based on 'reasonable' prices to the consumer or a 'reasonable' return to the investor.

"But more than just realism in language, recognition of the CPFF character of rates could well provide a basis for a breakaway from traditional rate-making techniques. . . ."

**F**INALLY, the authors recommend a new administrative basis for rate making, particularly for utilities whose operations

are interstate in character. While various federal agencies such as the Federal Power Commission, Federal Communications Commission, and Interstate Commerce Commission provide for regulation on a broader than single state basis, individual state commissions still retain full power and authority to regulate interstate utilities within the boundaries of the state. The Bell system is the classic example of a single industry subject to a fragmented regulatory system. "The time . . . may well have come for a change from geography to industry as the basis for rate



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setting and other regulations," the authors state. "The suggestion, thus, is made that rate making and regulation by industry should be studied as a feasible means of avoiding some present regulation problems." This could be done either by the federal government or by regional public service commissions established by interstate compact.

Appearing in the same issue of the *Virginia Law Review* is an article by Pro-

fessor Joseph R. Rose who has a somewhat different approach to current problems of rate regulation. His article, "Cost of Capital in Public Utility Rate Regulation," will be reviewed in this department in the next issue.

**PUBLIC UTILITY RATE REGULATION: A RE-EXAMINATION.** By G. Stanley Joslin and Arthur S. Miller. *Virginia Law Review*. November, 1957. Single reprints \$1 per copy; reduced rate for orders over 25. University of Virginia, Clark Memorial Hall, Charlottesville, Virginia.

### A Courtesy Idea Snowballs in Florida

"**C**OURTESY pays" has been an important part of our business creed for many years. It is one thing to believe in something, but another thing to put it into practice. Everybody believes in courtesy, everybody is for it. The meanest cop in town thinks he is courteous—he hasn't stopped to take stock of himself.

Public utilities have a particularly pressing problem—that of getting along with people. That is where courtesy plays a part. It makes for better human understanding and acceptance of anything you want to get over to the other fellow. Our customers have to deal with public utility companies whether they want to or not. That is where the problem comes in.

The president of Florida Power & Light Company, Robert H. Fite, recently put it this way:

If I get bad treatment at a store when I go in to buy a hat, I can always work off steam by walking out and buying somewhere else. Our electric customers can't do that—they are stuck with us. Their resentments have to stay bottled up, and in the long run we suffer.

In a recent case where renewal of a franchise came up this company met with a lot of opposition. Some people were bitterly opposed and were working against

us. In most instances when we investigated we found that their opposition was based on some trivial happening, perhaps something which a little more courtesy would have smoothed over.

Florida Power & Light Company's efforts to spread the idea that "courtesy pays" started with its own employees. Meetings were held and training courses given to impress upon those who meet the public the importance of courtesy. They were told how the job should be done. The company went through a series of progressive explanations to try to make employees realize the importance of courtesy if they want to continue with this company. They were taught that courtesy pays not only for the company but for the individual. Then the company officials began to realize that no one likes to be taught courtesy. Everyone thinks he knows how to be courteous.

**T**HE company management also found out something which helped in accomplishing its courtesy aim. It was a little slogan, "Courtesy Wins Friends for Florida and You." Labels with this slogan were introduced to the employees with the suggestion that they be put on telephones and other places where they would continually be seen. Within a month the com-

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pany had a suggestion from a meter reader that these stickers should be put on the front of the meter reader books. A truck driver suggested one be put on the dashboard of every truck.

The original purpose was simply to instill the idea of being courteous among our own employees. But the idea mushroomed. The Advertising Club of Greater Miami and the Florida District of the Advertising Federation of America took it up. They offered prizes for the best statements of fifty words or less on "Why I think courtesy is important to my community." The governor declared a Courtesy Week. In Florida courtesy has been a part of our tradition. Florida has a lot of people who become natives in two or three years. We try to help them to preserve this tradition. Florida Power & Light Company wants its employees to win friends, for themselves as well as for the company. It likes to get letters that say, "This fellow did a fine job."

SOME of the results of this courtesy campaign, begun just as a company matter, went away beyond any expectations. The Miami police department, for one, joined the efforts. Stickers, which were supplied, reading "Courtesy wins friends for Miami, the department, and you" were pasted on desks, telephones, washroom mirrors, and on the dashboards of patrol cars. This police campaign was not a flash in the pan. Only recently a Miami newspaper ran a number of letters from citizens praising the treatment they received from policemen. A typical comment: "Despite the fact he gave me a ticket, he was so courteous and explanatory that it was almost a pleasure being stopped by him." As a result of its courtesy campaign, the Miami police department says it gets about ten letters of praise for every complaint.

ONCE the ball got rolling the company was content to let others carry it. As stated in one of its little folders, "Courtesy Is Contagious." Numerous chambers of commerce in the state adopted the slogan. The company furnished the stickers without its name appearing. The Tampa Motor Club and the Tampa police department promoted the plan, although that city is served by another company. The Miami Beach Chamber of Commerce conducted a year-round campaign that has won nationwide publicity. The Miami Beach publicity department conducted its own campaign, financed by city funds. A Miami Beach hotel bought 100,000 match folders stressing courtesy. The American Legion, in holding one of its annual conclaves in Miami, adopted the courtesy theme.

These are only a few of the repercussions from what was at first conceived as an internal way of making relations with one utility company's customers more pleasant. The resulting volume of publicity was wholly beyond expectations. Almost every important Florida newspaper ran an editorial on the courtesy theme in which credit was given to the source. The wire services sent stories all over the country. Letters came in from Canada, Hawaii, Brazil, Germany, and many other places throughout the world, many also from companies in the United States such as transit companies, insurance companies, airlines, and even from a shoe manufacturer.

THE Florida Company has always operated on the principle that courtesy must stem from the top of the organization. In that way, it is easier to instill the idea among employees all the way down the line. Of course, that means the executives must practice themselves. They can also encourage it where it needs to be encouraged and help sell it and see that it is

## PUBLIC UTILITIES FORTNIGHTLY

executed. They can help other people to practice courtesy.

**A**MONG the company's employees, it is now customary that a letter is written to the man or woman who has won praise from a customer for an outstanding act of courtesy. Those who get such letters naturally show them to their fellow employees. The idea gets around. The fellow who has not received such a letter wishes he had. It encourages him to try to win the same kind of commendation.

Here is just one illustration of how it works. One young commercial engineer discovered that some tall palm trees on a customer's lot were interfering with com-

pany overhead lines. He asked permission to replace the palms with young and smaller trees. The customer objected because he was going to be out of town, and the new trees would not survive without water. So the young engineer agreed to stop on his way home from work every night and water the young trees. He did and the trees lived, the customer was happy, and the engineer and the company made a friend. That is just one of the reasons the company is sure that "courtesy pays" for the public utility or any other business or individual.

—M. B. McDONALD,  
*Vice president, Florida Power & Light Company.*

## Notes on Recent Publications

THE American Society of Appraisers, a national organization of appraisers and valuation engineers with offices in Washington, D. C., will issue, on January 15th, through its manual division in New York, its third completely new *Appraisal and Valuation Manual*, a source book of latest authoritative information on the solution to appraisal and valuation problems encountered in business and government.

The 500-page manual will contain more than 40 new, hitherto unpublished, technical studies, all prepared by top-ranking professional experts in the appraisal and valuation field.

The studies in the manual comprise a wide range of topics related to every phase of valuation and appraisal in all branches of real estate, architecture, building construction, public works, engineering, insurance, accounting, law, taxes, assessments, banking and finance, public utilities, industry, commerce, fine arts and antiques, plus every facet of government.

The articles in this volume cover a wide range of subjects. Among the manual's important new contributions are studies entitled: "Valuation in Condemnation—Partial Taking," "Factors to Be Considered in Hotel and Motel Evaluation by the Income Approach," "Effects of Market Pressure and Distribution Costs on

Value in Registered Secondary Distribution of Listed Common Stocks," "Appraisal of Utility Property for a Prospective Purchaser," "A Theory of Finding Value," "Valuation of Life Insurance Company Shares," "The Valuation of Mineral Properties," "Assessment Appraising," "Equalization of Appraised Values," "Principles of Real Estate Appraisal," "Depreciation for Public Utilities," and many others.

A feature of this volume is its greatly expanded and up-to-date bibliography of reference books useful to appraisers and valuation engineers. Further additions have also been made to the section on "Words and Phrases" related to the work of the appraiser as expressed in formal court opinions.

The manual for 1958 is a completely new book, and continues a series established by the American Society of Appraisers to meet the need of professional appraisers and valuation engineers, business executives and government officials for a compendium of current experience in solving appraisal and valuation problems.

Complete information may be obtained from the American Society of Appraisers, manual division, 369 Lexington Avenue, Suite 1105, New York 19, New York. Price \$15.

# The March of Events



## EEI President Elected

**J.** W. McAfee, president of the Union Electric Company, St. Louis, Missouri, has been elected president of the Edison Electric Institute, and J. E. Corette, president of The Montana Power Company, Butte, Montana, has been elected vice president of the electric industry's trade association. Both were elected on December 10th by the institute's board of directors at its quarterly meeting.

Mr. McAfee, formerly EEI vice president, succeeded Donald S. Kennedy, chairman of the board and president of Oklahoma Gas & Electric Company, Oklahoma City, as institute president. Mr. McAfee and Mr. Corette will serve in their new capacities until June, 1958.

Mr. Kennedy resigned the institute presidency, effective December 10th. In asking to be relieved of the post, he cited the heavy demands of both the trade association position and his duties as a company chief executive, which have become more strenuous due to recent retirement of key executives in his company organization. He said these factors made his action necessary, to avoid neglecting seriously one or the other responsibility.

The institute board, in accepting Mr. Kennedy's resignation, noted that he had served the industry "with outstanding effectiveness" since his election in June,

1956, and praised "the exemplary degree of self-sacrifice and devotion to the welfare of the entire industry" he displayed during his term of office.

Mr. McAfee, who was elected EEI vice president in 1956, was born in Oklahoma City, Oklahoma. He grew up in Brookfield, Missouri. He was graduated from the University of Missouri Law School in 1926.

## TVA Announces Sale

**T**HE Tennessee Valley Authority announced last month that a 547-acre recreation resort site adjacent to the Hiwassee dam, in western North Carolina, will be sold at public auction. No date had been set for the sale, but one will be set as soon as the first firm bid is entered. The minimum acceptable price is \$190,000, and the final price will be determined by the bidders at the auction.

The site, long known as Hiwassee Village, served as a construction camp during the building of the Hiwassee dam, 1936-40. Located at the site are 42 permanent-type frame houses; 13 other houses; a frame building suitable for remodeling for use as offices, crafts, or concessions; and other buildings. Some of the buildings have only salvage value, it was said. The area has an underground distribution system for water and sewage.

The auction will be held at Chattanooga.

## Arkansas

### Study of City Taxes Ordered

A STUDY of special taxes paid by Arkansas Louisiana Gas Company to the cities in which it operates in Arkansas was ordered last month by the state public service commission. The commission told Ark La to present information on these taxes along with any recommendations it might have for preventing discrimination between towns on its franchise tax bills.

A resolution adopted by the commission noted that there was a great inequality in the amount of taxes levied by the cities, and that in many instances the amount of the tax had no relation to the size of the town, the number of utility customers, or the amount of revenues derived by the utility from within the city.

It was further noted that the amount of taxes paid by Ark La had increased since the company's statewide rate schedule was fixed in 1954 and that these increases might have resulted in discrimination between towns or between classes of customers.

Ark La is now paying \$75,000 a year in franchise taxes to the city of Little Rock and the new city board of directors has discussed the possibility of an increase.

The Arkansas commission recently issued a similar directive to Southwestern Bell Telephone Company. This utility has proposed a formula for fixing franchise taxes and the commission has taken the formula under advisement.

The Arkansas Municipal League has suggested that all cities fix the franchise tax at 4 per cent of gross revenues.

## California

### Ordered to Fight Rate Increase

THE state public utilities commission last month ordered gas companies in California to take immediate action in fighting a threatened rate raise of El Paso Natural Gas Company from which two Los Angeles utilities purchase fuel.

It was pointed out in the San Francisco action of the commission that four California companies have applied for higher rates on the assumption that they would

have to pay more to El Paso Natural.

According to commission figures, the rate boosts in the state would cost gas consumers an additional \$19,399,000 a year.

The order was coupled with a warning to the utilities that they must launch their opposition "diligently, vigorously, and in good faith" before the Federal Power Commission, which is the agency controlling rates of the Texas company.

## Florida

### Files Rate Boost Application

TAMPA ELECTRIC COMPANY recently filed an application for an increase in rates with the state railroad and public utilities commission. The Florida electric utility submitted a new schedule of rates that it said would bring its rate of return on its investment up to 6.89 per cent from the 5.33 per cent it said it was earning in

the twelve months ended September 30th.

Utility officials said the increase would amount to about \$1.5 million yearly in utility operating income. In the twelve months ending September 30th, Tampa Electric had a utility operating income of \$5,344,654.

A commission spokesman said a hearing had been set for February 11th.



## THE MARCH OF EVENTS

### Illinois

#### Natural Gas Use Authorized

**N**ORTHERN ILLINOIS GAS COMPANY recently reported to the state commerce commission that letters were being mailed to approximately 22,700 customers authorizing them to use natural gas for residential space heating.

The current release covers all cus-

tomers who had applied for this service on or before February 21, 1955, for existing homes (homes occupied when applications were made), and on or before April 17, 1955, for individual new homes (homes not occupied on date when applications were made).

Permits must be acted on within twelve months.

### Missouri

#### Court Orders New Rate Base Formula

**T**HE state supreme court last month handed down an opinion having the effect of directing the state public service commission to revise its rate-making formula by taking current inflationary trends into consideration in establishing valuations.

The state court reversed and remanded a ruling by Circuit Judge Sam C. Blair of Jefferson City, who had upheld the commission's finding in a rate increase case instituted by the Missouri Water Com-

pany as applied to its customers in Independence.

Written by Judge Frank Hollingsworth, and concurred in by all judges of Division I, the opinion ordered the case referred back to the commission.

Missouri Water originally asked the commission to approve an upward revision of its Independence rate to produce additional revenues estimated at \$252,414. After the commission authorized an increase of \$167,204, the company appealed, first to the Cole county circuit court and then to the state supreme court.

### Nebraska

#### Interconnection Brings Savings

**I**NTERCONNECTION with the Omaha Public Power District and the Missouri basin project is saving wholesale power customers of the Nebraska Public Power System nearly a million dollars a year, the NPPS reported recently.

Because of the interconnections NPPS is required to carry only 12 per cent in reserve capacity. Where systems are not

interconnected and have no way of "borrowing" power to meet emergencies, they sometimes have to carry a reserve equal to the output of their largest unit—which may amount to as much as 20 to 25 per cent of their total installed capacity.

NPPS says this saving in power system investment is one of the reasons why unified control of high voltage interconnected transmission lines is imperative, regardless of who builds the lines.

### New Hampshire

#### Governor Seeks New Tax Ruling

**G**OVERNOR Dwinell disclosed recently that he would seek an advisory opin-

ion from the New Hampshire supreme court on the validity of proposed new gas and electric utility tax measures before calling a special state legislative session on the issue.

## PUBLIC UTILITIES FORTNIGHTLY

A bipartisan meeting of state legislative leaders agreed that if the high court rules any of the suggested tax methods is constitutional, the governor should recommend that a special session be called.

New Hampshire's utility franchise tax, which had been yielding \$540,000 a year, was recently invalidated by the state supreme court on the grounds that it was disproportionate and discriminatory.

### Pennsylvania

#### Gas Rates Suspended

THE state public utility commission recently suspended an estimated \$672,000 annual rate increase asked by Peoples Natural Gas Company, Pittsburgh, to offset higher cost of wholesale gas purchased from Texas Eastern Transmission Corporation.

The boost, which had been scheduled to go into effect on December 10th, was delayed for six months to next June 10th.

It was announced an investigation to determine justification for the increase would be combined with current hearings on the city of Pittsburgh's complaint against a \$1,242,000 rate boost made by Peoples in September.

### Rhode Island

#### High Court Denies Petition

THE state supreme court recently denied a petition by the Narragansett Electric Company to amend its appeal from the denial of a general rate increase. The utility sought to allege that the public utility administrator denied it equality of treatment with the New England Telephone & Telegraph Company.

The court ruled that it would not be proper to permit the electric company to add to its appeal an additional claim that,

after denying it a general rate increase on September 30th, the administrator made contradictory rulings in granting the telephone company an increase on October 15th.

Assistant Attorney General Archie Smith, opposing the proposed amendment, argued that the electric company's case should stand or fall on the correctness or incorrectness of the administrator's decision in the electric company case, and not by comparison with the decision in the telephone company case.

### Tennessee

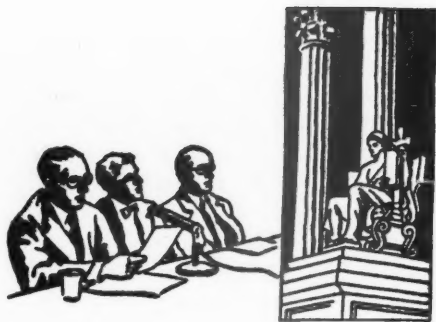
#### Rules Out Strike of City Workers

MUNICIPAL workers may not strike to force a city to enter into a collective bargaining agreement, the state supreme court ruled in Nashville recently in a case involving the city of Alcoa and Local 760 of the International Brotherhood of Electrical Workers (AFL-CIO).

"Under our system of government, it would not be right to allow the employees of that government, who are servants of

all the people, to strike against the government," Associate Justice Hamilton S. Burnett commented in ruling against the local and thus upholding the decision of Chancellor J. W. Parrott.

Last June 17th some twenty employees of the Blount Electric System in Alcoa struck in an effort to force recognition of their local. The strike ended a week later when Chancellor Parrott announced his ruling, but the IBEW appealed to the state supreme court.



## Progress of Regulation

### *Trends and Topics*

#### Deposits to Insure Payment of Bills

It is generally recognized that a public utility may adopt and enforce a rule that a prospective customer be required to deposit a reasonable amount to safeguard the account or be required to pay, in advance at stated periods, a reasonable estimated amount to cover service to be furnished. Public utility companies occupy a peculiar status, because of their obligation to serve, and it is necessary to grant them certain privileges to insure the collection of accounts (98 PUR NS 58).

##### *Small Deposits and Accounting Costs*

One phase of the deposit question was presented to the California commission recently when Southern Counties Gas Company stated that the fund made up of the present \$2.50 deposits was inadequate to offer any protection against uncollectible bills and that it was not taking \$2.50 deposits, as it cost more to administer and account for the funds than the gain in revenue warranted. The commission permitted the company to increase the deposit requirement to \$5, but it denied a request for permission to reduce the interest rate on deposits from 6 per cent to 5 per cent (20 PUR3d 267).

The commission staff suggested inauguration of an account-opening charge so that those persons who open accounts often will pay for the extra accounting and meter-reading costs they create. The company admitted that the adoption of an account-opening charge would result in additional revenue but believed this would adversely affect customer relations. The commission saw advantages to the proposal and required the company to give further study to the matter.

##### *Amount of Deposit and Interest Allowance*

Occasionally commissions have expressed opinions, in reported decisions, as to the proper amount of a deposit and interest allowances to customers, although deposit rules are usually approved as part of filed tariffs without special comment. A company should not be permitted to require deposits or advance payments beyond the point necessary to insure the minimizing of loss

## PUBLIC UTILITIES FORTNIGHTLY

due to unpaid bills. This statement was made by the Ohio commission in a case where a telephone company refused to furnish residence service in the absence of a \$100 deposit. A complainant against this deposit requirement, in the opinion of the company, had poor credit. Her husband had defaulted in payment of an obligation and he was still indebted to the company. The commission decided that an advance payment of \$12 was reasonable (97 PUR NS 29).

The relationship between the amount of the deposit and the estimated amount of bills is illustrated in a case which came before the Illinois commission. A gas utility was required to furnish service to a commercial customer, engaged in making confections, only upon condition that the customer first make a deposit of an amount found by the commission to be a reasonable requirement for the probable gas consumption of such a business. The commission, in consideration of all the facts and circumstances, decided that a credit deposit initially should be made in the sum of \$100 and that frequent readings of the meter should be made for the purpose of obtaining data for possible readjustment of the amount of deposit (PUR1933C 495).

The Missouri commission, in considering a deposit rule of a gas company, referred to a general order of the commission adopted in 1915 authorizing gas utilities to require a cash deposit or a personal guaranty by a responsible person before furnishing metered service. This rule provided that the amount of the deposit or guaranty should not exceed an estimated bill covering one billing period plus thirty days. Interest at the rate of 6 per cent per annum, payable annually or upon the return of any deposit, was to be paid. This rule was subject, however, to the further provision that the cash deposit remain for a period of at least six months and that the rate of interest should be only 3 per cent per annum if the utility kept the deposit in a separate and distinct trust fund deposited in a bank. The commission said it did not approve arbitrary action by a company in requiring customers to make deposits, but the commission could understand how the company must be permitted to operate its business for the good of all customers and not for the good of a few who may take advantage of any rule the company might have in effect (46 PUR NS 65).

The Wisconsin commission, in authorizing a telephone rate increase, said that applicants or customers whose credit rating is or may become unsatisfactory should be required to make a deposit of not more than the rate for exchange service for one billing period (except when a minimum contract period of more than one month is required, in which case the deposit should be equal to one-half of the rate for exchange service for the entire initial contract period) plus the estimated toll bill for two billing periods, to be applied at any time, at the option of the company, in payment of any subsequent unpaid charges for service rendered. Any balance of the amount deposited would be returned to the customer at the termination of service, at the termination of a minimum contract period, or at any time previous thereto upon establishing a satisfactory credit rating. Simple interest at the rate of 5 per cent would be paid on deposits retained for thirty days or longer (68 PUR NS 146).

## *Review of Current Cases*

### State Commission Asserts Jurisdiction and Authorizes Direct Sales by Panhandle

THE Illinois commission asserted jurisdiction over direct sales by Panhandle Eastern Pipe Line Company to industrial consumers in Illinois. Denying a petition for disclaimer of jurisdiction, the commission ruled that certificate authority must be obtained for such service. As an alternative to the petition for disclaimer, Panhandle sought certificate approval of a contract to provide interruptible service to Cabot Carbon Company in the immediate area of other industrial consumers served by the company.

#### *Holding Out to Serve*

Panhandle has in recent years greatly increased its direct sales to industrial consumers in the state, for an aggregate of about 20 per cent of its Illinois business. Evidence was shown of declarations by Panhandle that the industrial area in which it proposed to expand service was its own service area. From this and other evidence the commission concluded that Panhandle was holding itself out to serve the public by retailing gas direct to ultimate industrial consumers who may locate along its transmission mains.

The commission observed that both Panhandle Illinois Pipe Line Company and Illinois Natural Gas Company, subsidiaries of Panhandle, were public utilities under Illinois law and conducted their operations under the jurisdiction of the state commission. By the mere corporate device of dissolving subsidiaries and acquiring their assets, the commission declared, a parent company cannot remove from the commission's jurisdiction operations which are identical with those of its subsidiaries.

By a 1957 amendment, the Illinois Public Utilities Act clearly applies to interstate commerce to the extent permitted by federal law. The commission took the position that general jurisdiction of a state regulatory agency over direct sales by an interstate pipeline company is not prohibited by federal law.

#### *Objections by Local Utilities Overruled*

Intervening retail gas companies, including Citizens Gas Company of Tuscola, opposed commission approval of the contract by which Panhandle would sell directly to Cabot Carbon Company. Citizens contended that monopolistic direct sales by Panhandle should not be encouraged and that Citizens should be permitted to serve the industrial customer. Another intervening distributing company asserted that a pipeline should not be allowed to sell directly to a consumer while an Illinois utility stands ready and able to make the sale.

Actually, no other company sells gas in the immediate area in which Panhandle now serves several industrial customers and in which the new customer will be located. The evidence indicated that Citizens was not in fact readily able to furnish gas to Cabot Carbon Company. Under the contract proposed by Panhandle, the customer will connect to a pipeline serving another industrial plant in the area. Panhandle will be able to fulfill its obligations under the contract without interfering with its commitments to any Illinois utility.

The commission recognized that it would be in the public interest of the state to prohibit the direct service by Panhandle



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if it could be supplied by a local distributing company. However, the evidence showed, besides the fact that Citizens was unable readily to provide the needed service, that the area in which the new customer was located had already been granted to Panhandle, for practical purposes, under certificates to serve other industrial customers in the area.

### *Rate Proposals*

The contract provided for an interruptible rate of 45 cents per Mcf, which was

greatly in excess of the price fixed by the Federal Power Commission for sales for resale covering the same type of interruptible service in Illinois. The Illinois commission intimated that the 45-cent rate might be questioned on grounds of reasonableness. But it thought the contract as negotiated by the parties should be approved on the record, noting that the rate would be subject to subsequent modification by the commission if it should become necessary. *Re Panhandle Eastern Pipe Line Co. No. 44278, November 6, 1957.*



## Increased Expenses and High Construction Costs Necessitate Rise in Telephone Rates

NEW ENGLAND TELEPHONE & TELEGRAPH COMPANY obtained from the Rhode Island commission somewhat less than one-half of a requested rate increase of nearly \$3 million. According to the commission's calculations, the authorized increase will afford a rate of return of 6.25 per cent on a net investment rate base.

The company cited increased operating expenses and expansion of facilities during recent inflationary years as necessitating additional revenues, though some savings are expected to flow from newly installed dial facilities. Recent construction has increased the gross plant per telephone from \$252.97 at the beginning of 1952, to \$311.07 at the end of 1956. Further expansion of facilities is required by continuing heavy demand by applicants for new service and by present subscribers for upgraded service.

### *Capital Cost and Return*

The company contended, through its expert witness, that it should be allowed an opportunity to earn between 7½ and 7¾ per cent return if it is to be expected to attract the new capital needed for further

expansion. This witness, noting that the company had recently issued debt securities at a cost of 4.65 per cent, urged that the company would reasonably have to pay between 4½ and 4¾ per cent for additional debt capital.

He expressed the view that the telephone company should be permitted to earn a return on common equity which would approach the rate being earned by class A and B electric utilities, for which capital the average rate of return in recent years has been well over 10 per cent. Investment characteristics of the securities of both types of business are similar, though the telephone investor enjoys less stability of earnings, said the witness. It was also contended that the applicant should be allowed a capital structure, for rate making, of 35 per cent debt and 65 per cent common equity.

Adopting a debt ratio of 45 per cent and assuming 4.75 per cent as the cost of additional debt capital, together with 8 per cent as the cost of common equity, the commission arrived at a cost of capital of 6.14 per cent. The mere application of a strict cost-of-money formula, however,

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does not result in a fair rate of return, the commission indicated. A fair rate of return is something over and above the cost of money. The commission allowed 6.25 per cent.

### *End-of-period Rate Base*

A 7-month period ending in mid-1957 was chosen for the test period, and by using end-of-period figures for plant in service, the commission thought the results would be representative of an average plant figure for the calendar year. Plant under construction was excluded from the rate base, as was construction interest from the revenue account. The commission recognized that it is equitable to relate the revenues earned during a given period of time with the plant in service which produced the revenue.

Book depreciation reserve was accepted as representative of accrued depreciation. Materials and supplies were allowed in the actual amount on hand at the end of the test period. Although the company claimed cash working capital for forty-five days' operating expenses, the commission allowed about twenty-three days on the basis of the net interval of time between service and collections, less the interval between the incurrence of operating expenses and disbursements.

The commission adopted a separations study of intra- and interstate operations made in accordance with the NARUC-

FCC Separations Manual. It rejected a method, proposed by public counsel, based on relative use, where "some segment of the company's plant and operating expenses would fall into a twilight zone in which the company would be incapable of earning any return thereon."

### *Discriminatory Rates Adjusted*

Subscribers served by fringe area exchanges complained that they were not permitted toll-free calls to other noncontiguous fringe area exchanges. Such calls required a switching operation which occasioned expense to the company. On the other hand, subscribers served by the central exchange had unlimited calling access to the surrounding fringe exchanges, which were contiguous to it, without any additional expense to the company. Fringe subscribers, who paid the same basic rates as central subscribers, charged discrimination. Since the company did not have the necessary switching equipment available in the central office to warrant the elimination of message units being applied on calls between subscribers in noncontiguous exchanges, and since the elimination of message units would generate increased traffic, the commission concluded that a downward adjustment should be made in the rates applicable to subscribers of all fringe exchanges. *Re New England Teleph. & Teleg. Co. Docket No. 636, October 15, 1957.*



## New Hampshire Separations Plan Rejected in Favor of NARUC Separations Procedure in Telephone Rate Case

THE New Hampshire commission disapproved a rate increase proposed by New England Telephone & Telegraph Company, but authorized a smaller increase. In this case the commission accepted the principles of the NARUC Sepa-

rations Manual for the purpose of separating the company's plant, revenues, and expenses between interstate and intrastate service. In doing so it, in effect, rejected the so-called New Hampshire Plan which had been used in a 1952 rate case involv-

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ing the same company (97 PUR NS 410). That plan had been upheld by the state supreme court (99 PUR NS 111).

The commission said that since the Separations Manual has such overwhelming acceptance by state and federal commissions, and the telephone industry as to confirm its fairness, and since it was recommended for use by all state commissions by the 1957 NARUC convention, it accepted it for use in this case as the best method so far devised.

### *New Hampshire Plan*

Under the New Hampshire plan local conditions affecting telephone usage and the time of toll peak are considered. The commission pointed out that the relationship between exchange use and toll use has changed since 1952. In that year the peak usage for both toll and exchange plant occurred in July and August, generally attributed to the seasonal tourist trade. In the instant case, however, peak usage of exchange plant occurred in December and January, whereas peak usage of toll plant occurred in July and August.

The commission did not disagree with the principle that plant required to handle peak loads should be fairly allocated in accordance with demands established at peak periods. However, use of the peak demand method for allocating facilities presupposes simultaneous use by various classes causing the demand. In this case, however, outside exchange plant and subscribers' stations bore no relation to peak toll calling, and to separate them on such a basis would be without logic or reason, according to the commission.

The amount of local exchange calling indicated a high demand for exchange facilities with relatively little variation from month to month. Additional subscribers' lines or instruments were rarely necessary to handle toll calls, regardless

of the monthly variations. Furthermore, the subscriber's lines and instruments could never be used simultaneously for exchange and toll.

### *Cost of Capital and Return*

In determining the company's cost of capital as affecting return allowance, the commission used a 45 per cent debt ratio, with cost of additional debt at  $4\frac{3}{4}$  per cent and the cost of equity at 8 per cent. Using these factors, the minimum cost of capital would be 6.12 per cent.

The rate of return has slowly but steadily declined because of company expansion and rising costs on nearly all replacements of plant. This is known as attrition. Recognizing this condition, and that a fair rate of return should be somewhat above the cost of capital, the commission concluded that the minimum fair rate of return should be 6.2 per cent.

The commission authorized a rate increase of \$1,075,206 rather than the proposed increase of \$1,480,000. It pointed out that the difference between the amount allowed and that suggested by a company witness amounted to less than one cent per day to each telephone customer in New Hampshire.

### *Dissenting Opinion*

Commissioner Thornton, newly elected president of the NARUC, disagreed with the majority in its use of the NARUC Separations Manual, as well as the return allowance. He believed that the separation should be made at the time of peak toll use, pointing out that New Hampshire is a vacation state with a large summer business and a high peak use of toll which seriously affects the fairness of any separation done under the present NARUC formula. Commissioner Thornton said that the "argument for uniformity fails

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to impress me when such uniformity is at the cost of our ratepayers."

In discussing the cost-of-capital factor, Commissioner Thornton said that the cost of  $4\frac{1}{2}$  per cent for a future debt appeared to be much closer to actualities than the majority estimate of  $4\frac{3}{4}$  per cent. As for an additional allowance in the rate of return for attrition, he believed that no evidence

had been submitted as to the extent, or amount, suffered by the company. Any allowance made in this case would, in his opinion, be in the nature of an estimate unsupported by any evidence and contrary to the statute which places the burden of proof on the company. *Re New England Teleph. & Teleg. Co. D-R3624, November 22, 1957.*



### Higher Capital Costs and Expenses Support Increase in Telephone Rates

AN application by Pacific Telephone & Telegraph Company for a rate increase sufficient to afford a rate of return of 6.88 per cent, based on 1956 operations, received the approval of the Idaho commission. This return would decline during 1957 to approximately  $6\frac{1}{2}$  per cent.

A rate of return of 5.96 per cent was authorized in the company's last intrastate rate case in 1952.

The commission adopted the rate base submitted, consisting of average net plant and working capital, with the latter item adjusted for a 1956 wage increase. It was noted that this rate base was the lowest possible one which the commission could use in passing upon the reasonableness of the proposed rate increase.

The separation of intrastate and interstate operations was approved as presented by the company. The study was based on the 1947 Separations Manual, with 1952 and 1956 addenda, agreed to by the Federal Communications Commission and the National Association of Railroad and Utilities Commissioners.

#### *Capital Cost and Expenses*

Higher capital cost was cited as necessitating an increase in the allowable rate of return. In 1952 the cost of new capital

to the company, based on market conditions and earnings level then existing, was 5.79 per cent. Based on the same conditions, the cost of new capital had risen in 1956 to 6.32 per cent. This cost, the commission commented, does not reflect a fair return on the book capital already committed to the business. Evidence submitted for the company showed that in 1952, when the applicant was allowed a rate of return of 5.96 per cent, a return of 5.99 per cent was enjoyed by 150 of the largest electric, gas, and telephone utilities. In 1956 these utilities were earning 6.69 per cent.

Rising expenses, together with a large construction program, had diminished the company's earnings. At the close of 1951, the commission noted, the net plant investment of the company per telephone in Idaho was \$150. At the end of 1956, the cost was \$285, while the cost per telephone added during the 5-year period was \$592. Since 1952, the company has made a 33 per cent gain in stations. Plant investment since then has resulted in an increase in dial service from less than one per cent to over 90 per cent. Other important improvements in service have been accomplished by the company. *Re Pacific Teleph. & Teleg. Co. Case No. U-1001-2, Order No. 4481, October 3, 1957.*

## Nuclear Power Development Costs Proper Operating Charges of Electric Company

**E**XPENSES associated with the development of nuclear power as a means of electric generation were recognized by the California commission as fair and reasonable charges to Pacific Gas and Electric Company's over-all operations for electric rate-making purposes. The commission found the development program to be in the public interest.

The commission said research and development, continuing studies on new and different reactor technologies, training of personnel, and construction of both pilot and succeeding permanent plants and associated activities will play an important rôle in enabling the company to provide efficient and adequate electric service.

It was noted that the generation of electricity by the use of nuclear power may well provide the means by which future electric service will be of even greater benefit to the people of the state than the modes of generation now used. The full support of the California Farm Bureau Federation is behind the company in this program.

### *Rate Increase*

This action was taken by the commission in passing upon the company's proposal to increase electric rates. An increase of \$16,967,000 was granted, although the company had proposed an increase of \$19,783,000. The case was treated as one of offsetting increased costs of operation rather than one of determining a fair return under present-day conditions.

A return of 5.75 per cent, which included an attrition offset factor, was allowed so that a return of 5.55 per cent might be earned, the same rate previously allowed by the commission for the test

year 1952. Frequent and large increases in the cost of fuel oil used in the company's steam power plants had caused the return to decline to 4.99 per cent for 1957. Energy generated by these plants constituted about two-thirds of all of the company's generation in a year. This cost of fuel was beyond the company's control.

### *Fuel Adjustment Clause*

The commission disapproved a proposal to make a fuel adjustment clause applicable to electric rates. It observed that it does not look with favor on automatic cost adjustment clauses. Fuel clauses in rate schedules may have their proper place in certain schedules where it is essential that competitive conditions be met, but, said the commission, the company's present proposal that fuel clauses be placed in practically every electric rate schedule was not for such a purpose. The record contained no evidence that a competitive relationship existed. It showed merely that the company had sustained substantial increases in the cost of fuel and that it sought an automatic adjustment in its revenues to offset variable or increasing fuel costs.

### *Income Tax Factor*

The commission believed that the company requested no increase in its rate of return previously found reasonable only because it expected the commission to credit it with "normalized" tax expense based on straight-line depreciation, even though it might reduce its actual current tax payments by availing itself of the accelerated depreciation and amortization options under the Internal Revenue Code.

The commission, in another case, had adopted tax expense calculations based on straight-line depreciation and permitted



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"normalization" with respect to accelerated amortization and held in abeyance any decision with respect to accelerated depreciation. It accorded the same treatment in this case but provided that if the company should elect to take accelerated depreciation for any future year, it should

immediately report such election to the commission. This body, in turn, would promptly move to adjust the rates herein authorized in such manner as it might then find to be appropriate. *Re Pacific Gas & E. Co. Decision No. 55720, Application No. 38811, October 22, 1957.*



### SEC Denial of Holding Company Exemption Affirmed

THE United States court of appeals upheld an order of the Securities and Exchange Commission (15 PUR3d 112) refusing to exempt Cities Service Company and Arkansas Fuel Oil Corporation from the provisions of the Holding Company Act, despite the fact that Cities Service and all of its subsidiaries had disposed of all their utility holdings. The denial had been based, in part, on a prior proceeding involving Arkansas Fuel Oil Corporation in which jurisdiction had been specifically retained because of a publicly held minority interest.

#### *Automatic Exemption*

Cities Service claimed that by disposing of all its utility holdings it and its whole system automatically became entitled to an exemption under § 3(a)5 of the act, implying that compliance with the formal requirements of that section was sufficient. The court disagreed, saying that the statutory provision clearly implied that regulation of holding company systems may go beyond requiring elimination of the utility interest at both the initial and later stages of regulation. The statutory policy was deemed to extend to elimination of evils which had become part of the corporate structure of holding companies and their subsidiaries.

The court said the fact that the utility interests are disposed of before all the abuses have been eliminated does not de-

prive the commission of power to deal with the abuses even though it chooses to do so after the divestment. Since the commission had properly found that the continued existence of the publicly held minority interest constituted a complexity resulting in inequitable distribution of voting power in violation of the act, it could properly deny exemption until that interest was disposed of.

#### *Voting Power Distribution*

The holding company contended that since each shareholder in the subholding company had one vote for one share the voting power distribution could not be deemed inequitable. The court disagreed. A ballot has power only when it can influence decision. Because of the majority rule principle, the voting power of a permanent minority can easily be annulled.

If the majority's basic concern is not for the welfare of the corporation, but for an interest which may be adverse, there is no common interest between minority and majority interests, and the minority may effectively be disenfranchised. Thus, it was pointed out, even with individual companies in a holding company system, if the minority has no chance to influence decision because the majority does not have single-minded allegiance to the company, the one-share-one-vote formula does not mean that the distribution of voting power is equitable. Evidence, in the court's opin-

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ion, justified the commission's finding that there were inherent conflicts of interest and *de facto* disenfranchisement of the

minority interest. *Cities Service Co. v. Securities and Exchange Commission*, 247 F2d 646.



### Commission Jurisdiction Not Invalidated by Failure to Observe Its Rules

THE California commission denied motions to dismiss a complaint brought by a telephone subscriber alleging service inadequacies and the right to reparation therefor. The cause was set for a hearing on the merits.

There is nothing in the Public Utilities Code, held the commission, which requires the verification of a complaint, notwithstanding that a commission rule requires such verification. But the mere failure of the commission to observe rules adopted by it relative to practice and procedure, pointed out the commission, does not render its order one in excess of jurisdiction.

The commission dismissed that portion of the complaint barred by the applicable 2-year statute of limitations. A complaint must be filed within two years of the time

the cause of action accrues, and the making of an "informal complaint" by letter does not constitute the commencement of an action. The statute of limitations cannot be waived by the defendant in an action, nor will the defendant be deemed estopped, by conduct on its part, from pleading such statute as a defense.

A motion has been made to join another telephone company as a third party defendant. Here again, the commission denied the motion, since it appeared beyond the commission's jurisdiction inasmuch as the applicable statute of limitations in which to commence the action against the third party had also expired. *Pacific Mercury Television Mfg. Corp. v. California Water & Teleph. Co. Decision No. 55620, Case No. 5896, October 1, 1957.*



### Accruals for Damages and Unpaid Taxes Contested in Transit Rate Case

PITTSBURGH RAILWAYS COMPANY had no apparent difficulty in persuading the Pennsylvania commission to vacate its recent order suspending proposed rate increases. The company pointed to increased operating costs as requiring a boost in fares. Even assuming a depreciated original cost rate base (the lowest of four rate bases in evidence) and excluding all controverted items of expense, the company would earn a return of only 5.3 per cent. Pennsylvania subscribes to the fair value theory, giving consideration to reproduction cost.

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While the commission was satisfied that the evidence was sufficient to justify increased fares, there was still pending before it a complaint by the city of Pittsburgh against the new tariffs. As a consequence, no further action at the moment was contemplated other than to permit the proposed fares to become effective.

#### *Accruals for Injuries and Damages*

A witness for the city of Pittsburgh complained that the company had concealed earnings by accruals for injuries and damages in excess of the amounts al-

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lowed for tax purposes. The commission ruled that the charge of concealment of earnings was without foundation.

The accruals were made in accordance with accounts prescribed by the commission in the knowledge that they would not necessarily coincide with allowances permitted for tax purposes. The company entered amounts which it believed necessary to meet pending and potential claims that may not be settled until some future time, whereas the tax authorities allow as a deduction only the amounts actually expended in the settlement of claims during a particular year. The company, in effect, levels these charges through the years, based upon its experience. The commission noted that it is possible for the settlements paid in a particular year to exceed the book accruals.

### *Tax Accruals and Abandonment Losses*

An interesting question arose respecting federal income tax expense, though the commission did not decide it. The company made normal accruals for federal income taxes. Actually, by reason of abandonment losses, it had paid no federal income taxes for 1955 or 1956 and would pay none for 1957. The city's witness con-

tested the accruals. The company contended that since the abandonment losses and carry-forward losses were extraordinary in nature and applicable to prior years, the benefits from them should not inure to the patrons but instead to the stockholders. Such accruals, it was said, should be credited to paid-in surplus as a factor compensating the loss write-off charged to that account in connection with the abandonments.

Historically, the abandonment losses emanate from deficiencies in depreciation charges and the companion reserves accumulated during prior years, the commission observed. Had adequate charges and reserves for depreciation been recorded during prior years in amounts sufficient to allow for write-off of the properties at the time of abandonment, patrons would have been required in prior years to pay increased fares to compensate for the higher depreciation provision. But it was not necessary to decide the question since, even excluding the tax accruals, the proposed higher fares were well within the zone of reasonableness. *Pennsylvania Pub. Utility Commission v. Pittsburgh R. Co. Complaint Docket No. 16835, October 7, 1957.*



## Railroads' Concerted Special Rates to Military Violate Antitrust Law

**I**N an action by air carriers for an injunction and treble damages, a United States district court ruled that concerted reduced rates of interstate railroads to a military establishment were per se illegal under the antitrust laws. These rates varied to as much as 50 per cent below regularly filed tariffs. The court granted an injunction but refused to allow damages.

The railroads claimed that their special charges had been approved by the Interstate Commerce Commission and that they

were therefore relieved from the operation of the antitrust laws. Denying the court's jurisdiction, the railroads further asserted that the subject matter of this suit was within the exclusive primary jurisdiction of the Interstate Commerce Commission.

The court held that the antitrust immunity conferred by the Interstate Commerce Act did not apply to these concerted quotations made to the government. Nor did the commission ever immunize the rail-

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roads' special rates. Finally, the court declared, the commission does not have primary jurisdiction over the subject matter

of this suit. *Aircoach Transport Asso. et al. v. Atchison, T. & S. F. R. Co.* 154 F Supp 106.



### Surcharge Authorized in Accordance with Tax and Assessment Clause in Tariff

THE New Mexico commission approved an electric company's application for authority to add a surcharge to rates charged agencies of the federal government. Filed tariffs contained a special tax and assessment clause which allowed a surcharge equal to the amount of tax and assessment increases to be added to base rates, upon commission approval.

The company, because of the removal

of tax exemption privileges applicable to agencies of the federal government, was liable to the state for 2 per cent of gross receipts collected from federal agencies under service contracts. The commission held that application of the special tax and assessment clause was proper under the circumstances. *Re Public Service Co. of New Mexico, Case No. 396, October 25, 1957.*



### Desire of User of Paramount Consideration in Contract Motor Carrier Permit

THE New York commission abrogated a previous order denying an application by a partnership for a contract motor carrier permit to transport physically handicapped persons, and issued the permit. The commission pointed out that the proof as to the availability of applicant's facilities for the service required would be cogent but for the exceptional character of the service involved.

Some types of regulated transportation, because of their highly personalized character, are in a true sense contract carriage, said the commission. Transportation of handicapped persons who require special handling and care not only in transportation, but in entering and leaving the vehicle, falls within such classification.

Where it is found that a service is true contract carriage because of the special requirements, the desire of the user as to which carrier is to be employed becomes a paramount consideration, particularly where the operation is to be performed

under a continuing contract. Here, the contract customers had indicated a strong preference for the applicant's service, although other carriers protested.

#### *Ability to Perform*

One witness had produced testimony which cast a doubt upon one of the co-partner's ability to perform the specialized services involved.

In the New York commission's opinion, however, whether or not the co-partner possessed the requisite ability was not the determining factor. The statutory requirement as to fitness and ability was sufficiently met by a showing that the partnership could provide the special service by the use of qualified chauffeurs. The commission concluded that the applicants were fit, willing, and able to perform the proposed service and that such service was consistent with the public interest. *Re Ozarow (Social Service Transp. Co.) Case 20736, October 24, 1957.*

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### Discrimination in Rail Rates Ruled Independent of Competition between Shippers

THE California supreme court held erroneous a conclusion by the state commission (12 PUR3d 482) that a lower rail rate for one shipper than for another was not unduly discriminatory because there was no competition between the two shippers.

A railroad transported iron ore for a steel company at a substantially lower rate than for a cement company, though the mileage and operating conditions in both cases were similar. Upon complaint by the cement company that the higher rate applied to it was discriminatory, the commission dismissed the case.

However, it made conflicting findings. It found that the complainant had suffered no undue prejudice because there was no competition between it and the steel company and also because the differential was justified by a greater anticipated volume and regularity of shipments to the steel company. The commission affirmed its order of dismissal and denied rehearing but stated that the facts respecting the questioned rates "present a situation which should not be allowed to continue" and that adjustments should be made to obtain "rates which will not reflect an unreasonable difference."

The state supreme court held that these statements constituted an implied finding that the rates were discriminatory. The

state Constitution prohibits discriminatory rates, and a statute proscribes unreasonable differences in rates as between localities. The statute makes no exception for situations in which no competition is involved.

The commission's holding that the rates were not discriminatory, based on the lack of competition, violated these requirements of law. It was also inconsistent with the implied finding, supported by the evidence, that the rates were discriminatory. The order dismissing the complaint was annulled.

#### *Complainant's Right to Hearing*

The commission contended in effect that it was not bound to determine in this proceeding the amount of possible discrimination and to order its removal. It expressed the view that it could proceed with the matter in an administrative investigation without participation by the complaining cement company. The court indicated, however, that upon complaint by the shipper, the commission was required to hold a hearing, make an order which would resolve the issues presented, and fix reasonable rates, recognizing the cement company's right to participate in the entire proceedings. *California Portland Cement Co. v. California Pub. Utilities Commission*, 315 P2d 709.



### Grant of VHF Permit in UHF Area No Abuse Of FCC Discretion

THE Federal Communications Commission was held not to have abused its discretion in refusing to stay or condition the grant of a television construction permit for a VHF station. The fact that the commission had, as the result of a

general rule-making proceeding, decided to reject intermixture as a national policy did not alter the court's opinion. Neither did the fact that a UHF station was already operating in the area.

The petitioner contended that, in view



of the commission's declared objective of taking immediate steps to grant relief to the public and UHF operators in intermixed markets, there was no reasonable factual or legal basis for distinguishing between the public policy considerations applicable to the intermixture problem in his area and the intermixture problem in Peoria, Springfield, Hartford, and New Orleans, where the commission had ordered deintermixture rule-making proceedings. The court was unable to accept such arguments.

It appeared that, for the thirteen areas for which rule-making proceedings were authorized, the commission had already reached tentative conclusions regarding the nature of the solutions deemed desirable. The hearings were primarily instituted in order to receive views of interested parties as to the propriety and feasibility of these solutions.

The commission had deemed it desirable to refrain, pending the conclusion of the hearings, from any action which would be contrary to or inconsistent with the contemplated solutions. It, accordingly, had attached appropriate conditions to new grants of VHF licenses in those areas where a VHF channel would be deleted under the notice of proposed rule making.

No such tentative or preliminary conclusions had been reached by the commission with respect to petitioner's area. On the other hand, the public interest in receiving promptly a new television service was a factor which the commission was entitled to consider. The court was unable to conclude that the commission had been arbitrary or capricious in refusing to stay or condition its grant. *Jacksonville Journal Co. v. Federal Communications Commission*, 246 F2d 699.



### Subscriber's Request for Local Telephone Service Through Adjoining Exchange Denied

THE Missouri commission denied a subscriber's request for telephone service through the exchange area adjoining the area in which he resided and was being served. It held that the subscriber's preference to have local telephone service through the adjoining exchange merely to satisfy his personal wishes, interests, or needs, did not in and of itself furnish any basis for an alteration of the common boundary line so as to encompass his home within that area.

Service area maps defining the boundaries of these exchanges were filed with the commission and by operation of law became effective. As such, they were held to be binding on all concerned, including the commission, the company, and the subscriber unless the commission found them to be arbitrary and unreasonable.

The commission said that such boundary lines must be fixed at definite locations to insure adequate service and to enable the company to engineer the plant with which to render service on a sound, economical basis.

Nothing in this proceeding indicated that the common boundary in question was improper or that the subscriber had been discriminated against by the location of that boundary.

Consequently, the Missouri commission held that the subscriber must look to the existing exchange facilities for local telephone service. It noted, however, that he might be served through the other exchange by the use of the Bell system's foreign exchange service at the rates and terms therefor if he desired it. *Re Jansen*, Case No. 13770, November 6, 1957.

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### "Public Necessity" Justification for Opening Industrial Area to Two Railroads

THE South Dakota commission concluded that the public interest would be best served by opening an industrially zoned area to two railroads instead of one. The request by one of the railroads that the commission find public necessity required condemnation and construction of a spur track, across the other's right of way to the industrial real estate it owned, was denied.

The commission limited its findings to the issue of whether "public necessity," as distinguished from "public use," existed for the construction of the spur and the condemnation of the land. The record established that it would be a substantial benefit to the petitioning railroad to de-

velop the tract of land it owned for industrial purposes by leasing to industries whose patronage naturally would flow to its line. However, the commission did not believe that a benefit flowing to the railroad, standing alone, was sufficient to constitute "public necessity," as contemplated by law.

The fact that, presently, the land owned by the railroad had no industries located on it was held relevant to the issue of public necessity for the spur. The commission did not pass upon the question of "public use," since the nature of any use, whether public or private, is a judicial question. *Great Northern R. Co. v. Chicago, St. P., M. & O. R. Co. F-2440, October 18, 1957.*



### State and Federal Jurisdiction Not in Conflict On Rail Track Abandonment Question

THERE is no conflict between state and federal jurisdiction, the New Jersey commission held, in ruling on a proposal by Delaware, Lackawanna & Western Railroad Company to abandon one of two tracks of a branch line. The proposal was made in connection with an application to the Interstate Commerce Commission for authority to make changes in signals on the line.

A motion addressed to the state commission to dismiss for lack of jurisdiction was denied.

The Interstate Commerce Commission has control over the installation, maintenance, and efficiency of safety devices. The state commission is authorized to require railroads to furnish safe and adequate transportation and to maintain their

property and equipment so as to permit them to render adequate service. The combined powers of the two commissions supplement each other and provide a more complete regulatory program, the state commission observed.

The proposed removal of track would result in substantial annual savings without interfering in any material way with adequate service. The commission therefore granted the requested authority. *Re Delaware, L. & W. R. Co. Docket No. 10256, October 30, 1957.*

The commission also granted a separate application by the same railroad for similar authority with respect to another stretch of track no longer needed. *Re Delaware, L. & W. R. Co. Docket No. 10268, October 30, 1957.*

## Other Recent Rulings

*Bond Issue Approved.* The Connecticut commission authorized an electric company to issue debentures to finance the repayment of short-term loans and an expansion program needed to meet the demands for service where the resulting debt ratio would only be increased from 39.6 per cent to 46.9 per cent. *Re United Illuminating Co. Docket No. 9559, November 15, 1957.*

*Telephone Rate of Return.* The North Carolina commission approved rates for a small telephone company sufficient to afford a rate of return of 5.65 per cent on a net investment rate base. *Re Saluda Mountain Teleph. Co. Docket No. P-76, Sub 1, October 22, 1957.*

*Foreign Exchange Telephone Service.* The Wisconsin commission dismissed a petition requesting the commission to order a certain exchange to extend direct telephone service where the petitioner resided in a territory which, under normal conditions, would be served by another exchange and the extension of service on a direct basis from the exchange desired would only serve to meet petitioner's particular convenience, which foreign exchange service was designed to cover. *Re Gorell, 2-U-4760, October 11, 1957.*

*Depreciation Accrual.* The District of Columbia commission authorized a gas company to use the straight-line remaining-life method in the determination of depreciation accruals, applying a composite accrual determined at the beginning of each calendar year and based on the application of individual accrual rates for the depreciable property accounts at the

close of the preceding year. *Re Washington Gas Light Co. PUC No. 3197/2, Order No. 4408, November 4, 1957.*

*Interstate Sale at Gas Well.* The Federal Power Commission denied rehearing of an order which determined that a producer's sale of gas from a single well to an interstate pipeline company was a sale in interstate commerce, observing, in the face of a contention that production had not been completed, that once the gas had been reduced to possession and sold for transmission out of the state, the interstate character of the sale attached. *Re Continental Oil Co. Docket No. G-6346, October 24, 1957.*

*Air Carrier Authority Upheld.* The court of appeals affirmed orders of the Civil Aeronautics Board granting to several air freight carriers temporary authority to carry air express and mail, upon favorable evidence as to their rates and service and upon further evidence that the additional revenues would aid the development of these carriers while the loss of such revenues by air passenger carriers would not seriously affect the latter. *Delta Air Lines, Inc. v. Civil Aeronautics Board, 247 F2d 327.*

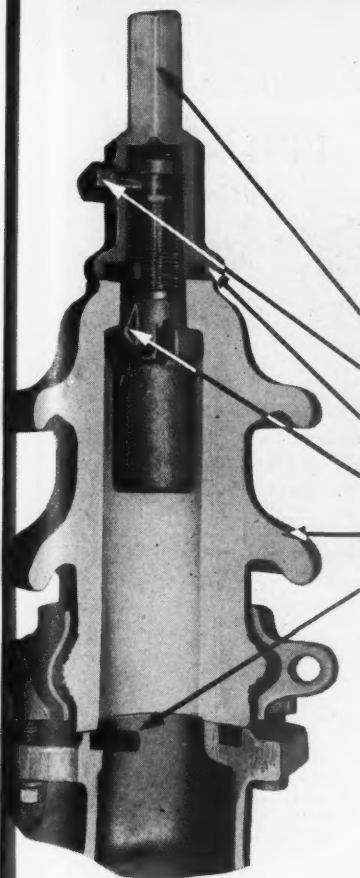
*"Processed Meats" Issue Remanded.* A United States district court remanded a certificate proceeding to the Interstate Commerce Commission where, in determining that "processed meats" did not comprehend fresh meats, the commission failed to indicate the basis upon which it made the determination. *Chesapeake Motor Lines, Inc. v. United States, 153 F Supp 812.*

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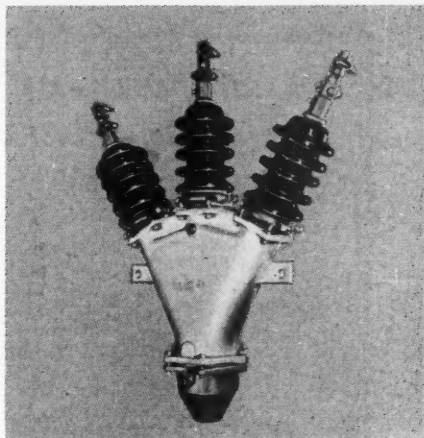
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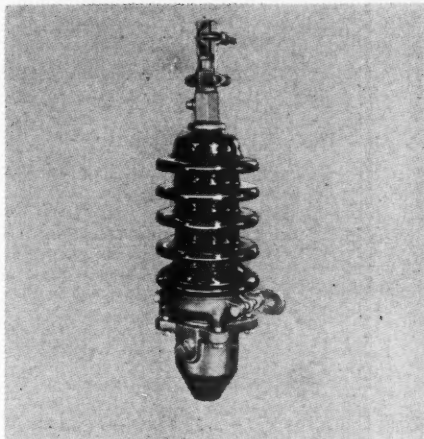
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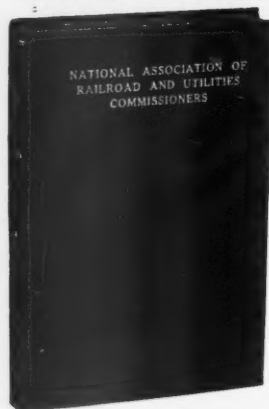
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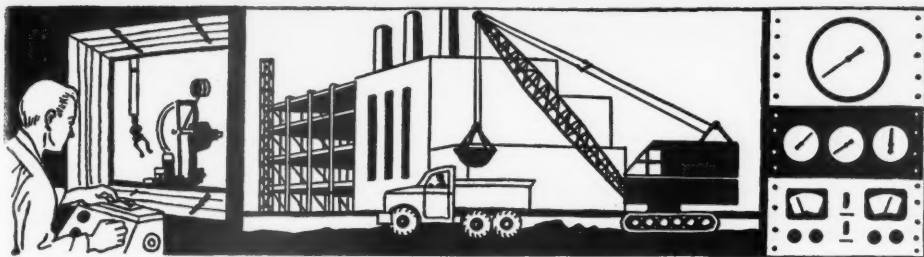
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## Industrial Progress

### Boston Edison Adds Fourth Unit to Mystic Station

RE power for the ever-growing city of Greater Boston began flowing from a giant turbo-generator at Boston Edison Company's Mystic station in Everett on December 4th. The 1,000,000-pound unit No. 4, the latest single unit in Edison generating stations, has a capability of 140,000 kilowatts.

With the addition of the new unit, Boston's generating capability is now 6,800 kilowatts. This represents more than double the capability available at the close of World War II. The turbo-generator is the company's latest major generating unit to "go on line" since World War II.

With construction already under way for a companion unit No. 5, its electrical generating capability will double the Mystic station the largest of Boston's three generating stations. The new unit No. 4 represents the latest part of Edison's capital expenditure of \$38,000,000 for 1957. Aggregate expenditures are reported at \$150,000,000 from 1946 through 1957. Along with the companion unit building at Everett and scheduled to be placed in service in the second half of 1959, corresponding expenditures for transmission and distribution facilities are called for in the continuing expansion program.

### CO Awarded Certificate By U. S. International Cooperation Administration

THE Virginia Electric and Power Company has been awarded a certificate of cooperation from the International Cooperation Administration of the U. S. Government, for its "significant contribution" in furnishing technical assistance to foreign utility representatives, Miles Cary, president, announced recently.

Under the program of the ICA, selected utilities managers from Formosa, Thailand, Korea, Iran, Japan and Mexico have visited Vepco properties for periods of several days to four weeks. These visitors are instructed fully in the operation of their special interest in utility management.

The certificate of cooperation was presented to Vepco for its participation in the program during 1957.

### B. C. Electric Has \$98,600,000 Program

CONTINUING evidence of British Columbia's expansion is contained in 1958 budget figures for the B. C. Electric, details of which were announced recently by President A. E. Grauer.

During the calendar year the company forecasts a total expenditure of \$98,600,000 to be devoted largely to expansion of its electrical generation, transmission and distribution facilities in keeping pace with the growth of its service territory on the Lower Mainland, Vancouver Island south and portions of the interior of the province.

Biggest single item is the allocation of \$30,800,000 for the company's second Bridge river development which is scheduled for completion in 1959. Total cost of this project exceeds \$60,000,000 and the first of four generating units is expected to be in service by May of 1959.

The gas turbine electrical generating plant at Port Mann will be completed during the forthcoming year to add 134,000 h.p. to the system. Expenditure on this project in 1958 will be \$7,600,000.

At the Ioco site of the Company's new thermal electric plant, there will be an expenditure of \$3,200,000 for land clearing and civil engineering work on building construction.

Money for completion of the second submarine cable circuit to Van-

couver Island is contained in an allotment of \$9,300,000 for electrical generating stations, transmission lines, substations and distribution facilities for the Island.

New natural gas trunk lines, distribution mains and accessory plant will require an expenditure of \$5,100,000 on the Lower Mainland.

The Company's freight railway system will be turned into virtually an all-diesel operation with the purchase of five new diesel engines. Cost of this equipment will be included in a \$2,600,000 allotment for the division's 1958 program.

### \$25,240,200 Construction Budget Set by San Diego Gas & Elec.

AT its December meeting the Board of Directors of the San Diego Gas & Electric Company approved a preliminary 1958 construction budget of \$25,240,200. E. D. Sherwin, president, states that this will be the second largest yearly capital expenditure in seven consecutive years of high expenditures. He pointed out that from 1952 through 1957 approximately \$125,000,000 will have been invested in additional plant, property, and equipment.

In the \$25,240,200 budget a total of \$18,450,700 is earmarked for enlargement of electric production, transmission, and distribution facilities. An estimated \$6,097,500 will be spent on the gas production, storage, transmission, and distribution system. Approximately \$27,000 will be spent in the steam department. The sum of \$665,000 will be invested for land acquisition, new structures, vehicles, and shops, stores, laboratory, communication, and other equipment.

Major projects in the electric department are completion of the third unit at the Company's Encina power

(Continued on page 26)

plant involving an expenditure of \$4,911,700 and preparatory work on the first unit at the South Bay power plant at a cost of \$2,000,000. Major item in the gas department program is installation of a 20-mile transmission pipeline paralleling a portion of the existing Moreno transmission line involving an expenditure of approximately \$2,000,000.

### Gibbs & Hill Appointments

JOHN B. SAXE and Boris Lochak have been appointed chief consulting engineer and chief engineer, respectively, of Gibbs & Hill, Inc., David B. Sloan, president of the consulting engineering firm, announced recently.

Mr. Saxe, chief engineer since 1953, continues as a vice president and director of the corporation. A 1923 civil engineering alumnus of Harvard University, he joined Gibbs & Hill, Inc. in 1924. Early assignments included engineering for electrification of the Pennsylvania and other railroads; later he was in charge of power plant design and construction, in 1945 becoming the firm's chief mechanical engineer.

Mr. Lochak, who also will continue as a Gibbs & Hill, Inc. director, has

been elected vice president. Since 1949 in charge of the firm's foreign operations, he has been responsible for the design and construction of several central-station power plants in France, Italy, Spain, Taiwan and other countries. At present, projects include nuclear power plants in Belgium and Italy. Mr. Lochak is a 1924 civil engineer graduate of Ecole Nationale des Ponts et Chaussees, Paris, France. Formerly chief engineer of the Foundation Company of Paris, he joined Gibbs & Hill, Inc. as a structural engineer on domestic power plant projects in 1942. In his new capacity he will direct all design and construction engineering services in the fields of power, industry, transportation, highways, water supply and waste treatment. Gibbs & Hill offices are located in New York, Los Angeles and Tampa.

### Iowa Elec. Light & Power Plans \$7,573,775 Program

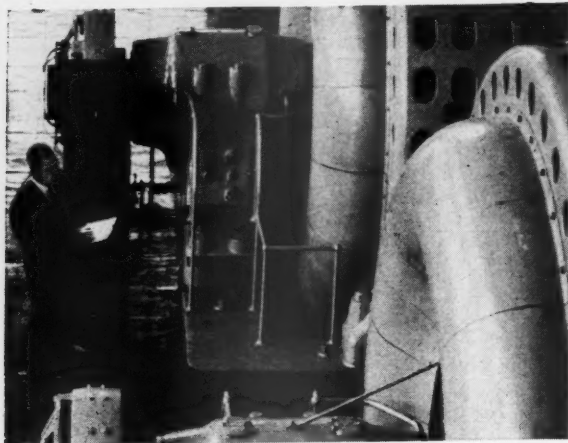
A construction budget totaling \$7,573,775 was approved recently for the Iowa Electric Light and Power Company's expansion program during 1958.

The major item in the new is for additional natural gas distribution systems. These new systems be installed in towns covered by application now before the Federal Power Commission. Odwein Vinton will require some gas distribution system rebuilding during the version from manufactured to natural gas service. Costs on the work will be started as soon as the Federal approval is received, will total \$1,313. Other gas expansion projects bringing the expenditures approved by the gas department to \$2,080,399.

The electric department budget for 1958 is set at \$3,716,356. No construction project is planned started during next year by the electric department. However, the underground transmission system which being built in Cedar Rapids will be expanded during the new year.

### New I-H Catalog Describes Heavy Duty All-Wheel Drive Trucks

AN eight-page, full-color catalog describing and illustrating six heavy duty International all-wheel drive trucks (Continued on page 28)



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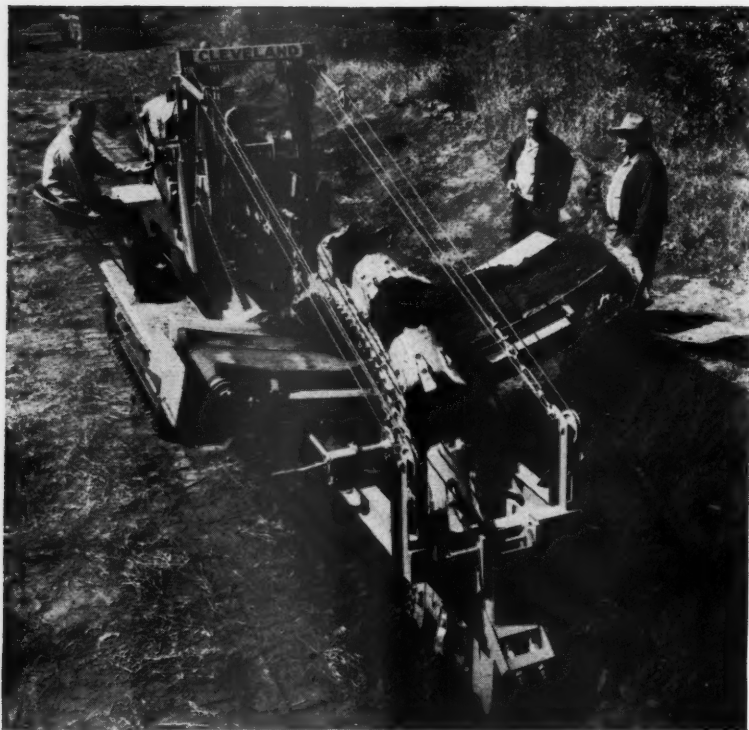
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## INDUSTRIAL PROGRESS (Continued)

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Catalog may be obtained by writing to Consumer Relations Department, International Harvester Company, 1 N. Michigan Avenue, Chicago 1, Ill., and requesting form CR-205-G.

## Mine Safety Folder

SAFETY engineers and purchasing agents of utility, mining, construction, railroad and general industrial firms will be interested in a new four-illustrated folder describing the assortment of winter liners for all protective hats marketed by Mine Safety Appliances Company, Pittsburgh.

Photographs of the individual models are appropriately labeled to identify features that contribute to both the comfort and safety of the wearer.

Liners with no metal parts and provision for extra insulation protection over head, neck and ears are specially engineered for use with M-S-A Shockgard—the protective helmet worn in those areas of operation involving possible exposure to hazard of electrical shock.

Copies of the illustrated folder "Winter Liners for All M-S-A Protective Hats" can be obtained by writing to Mine Safety Appliances Company, 201 North Braddock Avenue, Pittsburgh 8, Pa.

## Gas Men Predict \$5 Billion Appliance Outlay

THE residential gas appliance equipment industry estimates the least 15.6 per cent of the \$32,000,000 outlay expected in 1958 for home construction and modernization will be spent on kitchen, laundry, heating equipment, with gas-operated types in greater demand than at any time in the past.

A better than seasonal pick-up in the gas heating business since last summer, continuation of heavy volume in gas water heaters, and a final-quarter rise in sales of gas stoves in ranges are among the reasons.

(Continued on page 30)



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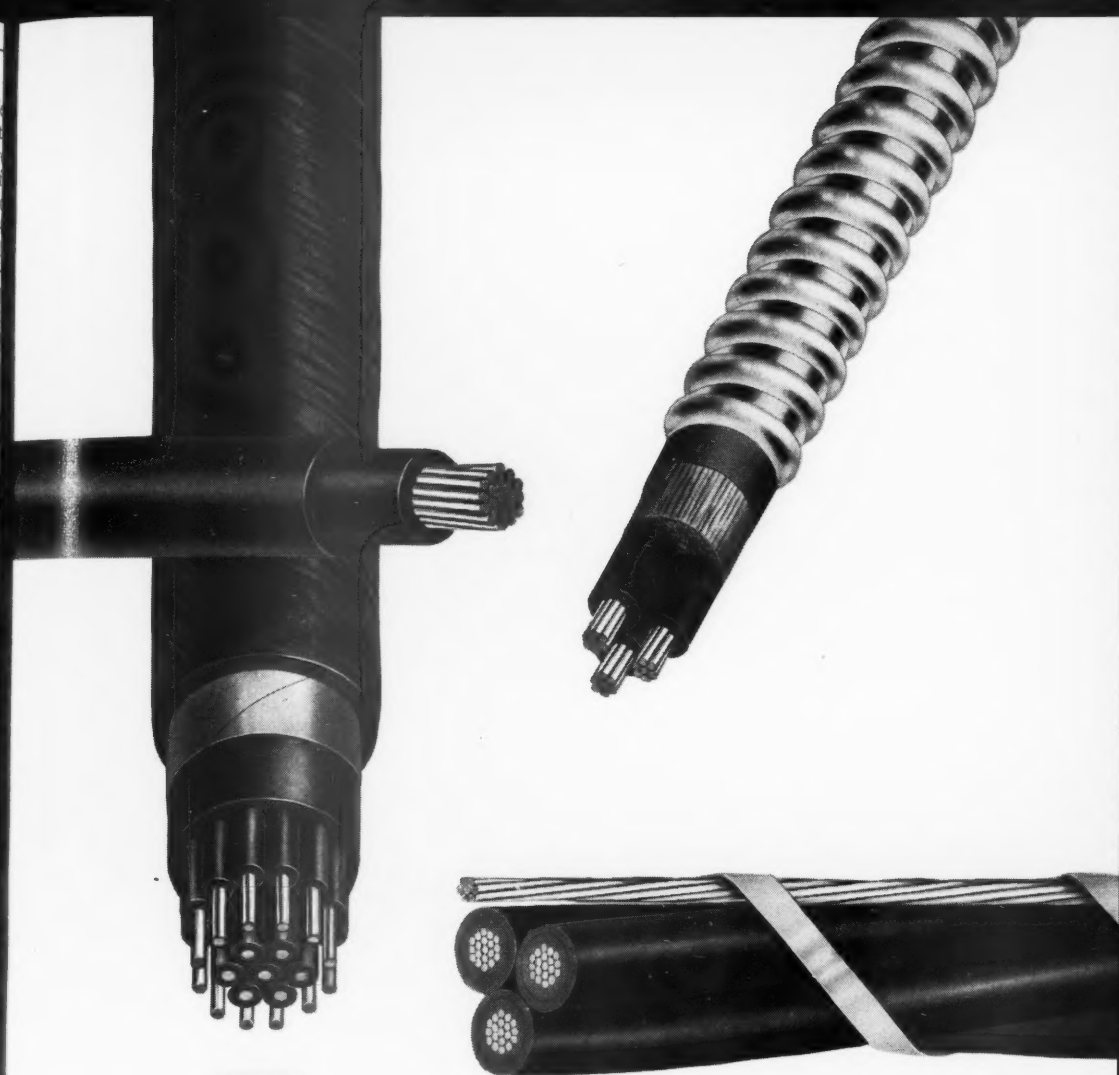
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the industry's outlook for the new year is extremely bright.

Official forecasts of 1,100,000 housing starts valued at \$17 billion and home improvement projects totaling \$15 billion are another basis for gas equipment industry enthusiasm.

It appears likely that housing starts will be better distributed in 1958 than during 1957 when Los Angeles alone accounted for every 12th start. This will mean better distribution of business among regional equipment producers.

The average new home, according to recent past performances, will retail for about \$15,500 and will require about \$1,850 worth of cooking, heating, laundering and related equipment. In cases of home improvement, 20 per cent of the average budget will go for similar equipment.

The combination of the new-homes and modernization markets therefore will involve an equipment expenditure by consumers of more than \$5 billion, or 15.6 per cent, of the \$32 billion earmarked for shelter production and improvement in 1958.

Recent figures show how the gas industry ties into the present and future housing picture. Seven out of 10 new homes now are being equipped with gas central heating furnaces or boilers. Gas water heaters are outselling other types by better than three to one, while sales of gas built-in ranges, now in demand for both new homes and replacement projects, are up nearly 20 per cent over last year's total and are expected to go much higher in 1958.

Even if only 10 per cent of the nation's existing homes come in for some improvement next year—and the outlook is for a much larger number, according to building and loan and other lending institutions—the effect on appliance sales is likely to be positive.

The tendency to favor gas equipment is already discernible in the step-up of gas conversion burner, clothes dryer, direct heating equipment, gas range and water heater sales during the final quarter of 1957, as well as the all-year pace of furnace and boiler sales, according to an industry announcement.

Demand for gas dryers indicates that home improvers want to complete laundry automation that began with earlier installation of washing machines. Automatic gas water heaters figure in modernization projects because of growing families, the need for increased hot water-producing

capacity, and the fact that new and improved components of the modern gas heater have added to its efficiency without increasing its bulk.

As to gas ranges, either free-standing or built-in, dealers report demand arising from a swing to the new time and automatic heat controls for both the oven and range top burners and a realization, at long last, of how much easier it is to run a kitchen equipped with efficient cooking automation.

Students of the modernization market also see up-dated refrigeration and whole-house air conditioning as in more common demand in 1958. Both services are now available in gas-operated equipment, and the new year is expected to see more gas equipment companies engaged in this phase of the industry.

The continuing spectacular expansion of the natural gas pipeline system is a strong indication of the industry's belief that our expanding population will demand gas and gas burning appliances and equipment in increasing volume.

#### Arizona Public Service to Build 100-Mile 115 KV Line

PLANS to construct a \$2.5 million, 115 kv line were announced recently by Arizona Public Service Company. The line, will connect with the company's statewide transmission network and will serve the Bisbee-Douglas area in Southeastern Arizona.

Approximately 100 miles in length, the line will pass through some of the most rugged terrain in the Southwest. Immediate plans call for construction to get underway early in 1958, and will be carried to an early completion.

Necessity of the line is an outgrowth of the rapidly increasing power demands in Arizona's Cochise county. The company's loads in the county have outgrown the small power plant phase of operations, and the line is being constructed with enough excess capacity to insure a dependable and adequate supply of power for the county's continued growth in agriculture and industry.

#### G-E Power Circuit Breaker Interrupts Nearly 14-Million KVA

WHAT is believed to be the highest capacity power short circuit ever developed in a field test was successfully interrupted by General Electric Company's 345,000 volt power circuit breaker.

The test, which imposed nearly 14-million kva, was part of a series of

investigations made jointly with American Gas and Electric Service Corporation at the Appalachian Electric Power Company's and the Power Company's Philip Sporn station near New Haven, West Virginia in late August and early September.

More than one hundred separate tests were conducted under various conditions and included line-dropping tests, both within and beyond range in addition to fault-interruption. During the line-dropping tests, the breaker successfully switched 200 amperes charging current.

Tests were conducted primarily to determine the performance of the improved design of the breaker's pulse interrupters and to prove ability to handle the abnormal sequence requirements encountered on high voltage transmission systems.

Field tests were in addition to investigations conducted at General Electric's Switchgear Development Laboratory.

#### Middle South System to Spend \$71,000,000 in 1958

A construction program of about \$71 million will be required in 1958 to keep the Middle South System abreast of the new and expanded demand for electric service, E. H. Dixon, Middle South Utilities, Inc. president, forecast recently in a talk before the Boston Security Analysts Society.

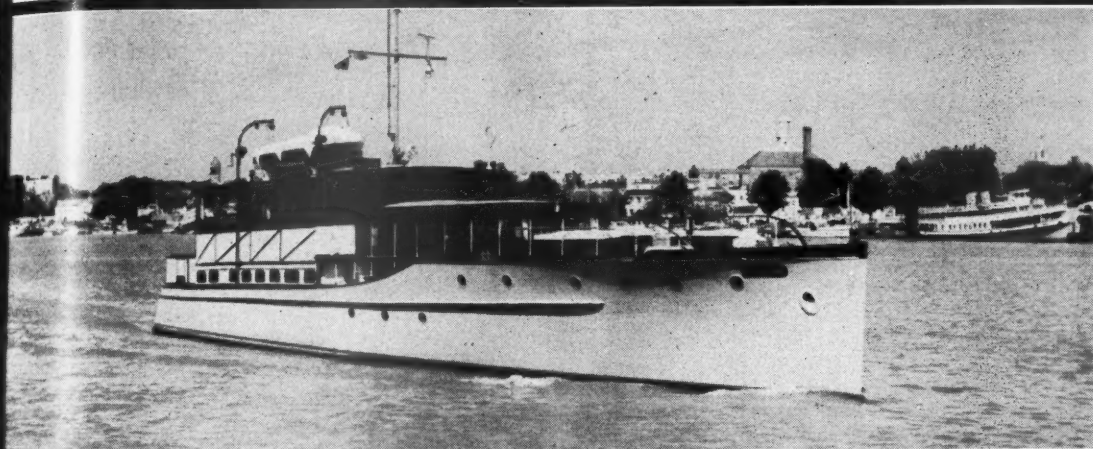
A great part of next year's construction expenditures will be for new generating capacity needed to meet future requirements for electric energy, Mr. Dixon said. Next year a 120,000-kilowatt unit was completed in the System by New Orleans Public Service Inc. Next year a 200,000-kilowatt unit is scheduled for completion by Louisiana Power and Light Company. This will be followed by a 230,000-kilowatt unit, planned for commercial operation in 1959 by Mississippi Power & Light Company.

Expansion of the Middle South System was cited by Mr. Dixon as evidence of the continuing economic development of the three-state area of Arkansas, Louisiana, and Mississippi. Pointing particularly to southern Louisiana, where \$1 billion investment in new and expanded industrial facilities since World War II has created a section frequently called the "Chemical Basin of the United States," he said that the Middle South area is continuing to show growth greater than the national average and the major economic indices.

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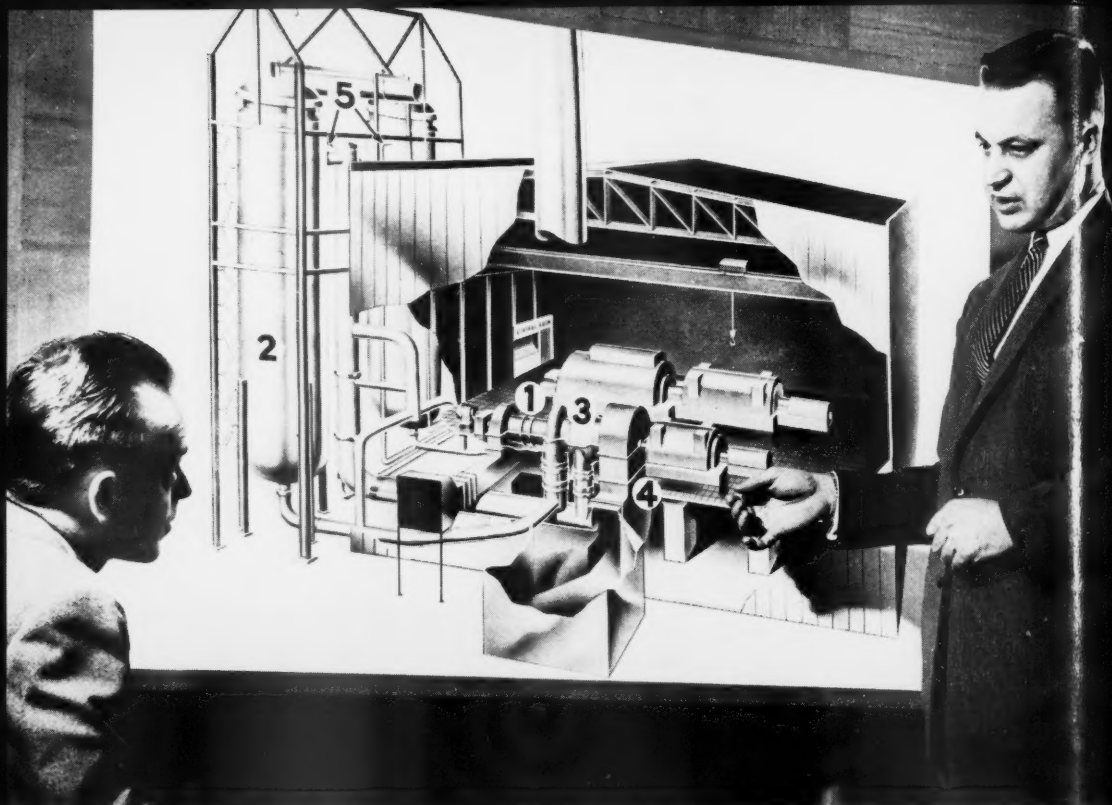
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